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AUTHOR	Myers, Will S.; And Others
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ABSTRACT

This study analyzes the self-help capabilities of the States to equip themselves with a highly productive State-local revenue system that could underwrite a major share of school costs. The present state-local revenue system is said to be impaired in its productivity and equity by: (1) the regressive impact of property, general sales, and selective excise taxes; (2) the imbalance between fiscal resources and certain functional responsibilities of government; (3) the sluggish response of state and local revenues to economic growth; and (4) the difficulties in assuring equitable administration of the property tax. Possible solutions to these problems are presented in relation to the achieveing of a heavy-duty State-local revenue system. A discussion of the implications of Federal financing of public welfare and Federal revenue sharing for school finance and for the improvement of State-local tax systems is given. Five appendixes provide the following: A. Major Recommendations of State Tax Studies, 1968-1971; B. Bibliography of Selected Materials on State and Local Finance; C. Constitutional and Statutory Limitations on State and Local Borrowing and Property Taxation; D. Appendix Tables and E. The Rough Road to Tax Reform: The Ohio Experience. The report proper is illustrated with 27 tables. (For related document, see ED 058 473.) (DB)

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State-Local Revenue Systems and Educational Finance

Prepared by
Advisory Commission on Intergovernmental Relations

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Submitted to The President's Commission on School Finance

THIS IS ONE OF SEVERAL REPORTS PREPARED FOR THIS COMMISSION. TO AID IN OUR DELIBERATIONS, WE HAVE SOUGHT THE BEST QUALIFIED PEOPLE AND INSTITUTIONS TO CONDUCT THE MANY STUDY PROJECTS RELATING TO OUR BROAD MANDATE. COMMISSION STAFF MEMBERS HAVE ALSO PREPARED CERTAIN REPORTS.

WE ARE PUBLISHING THEM ALL SO THAT OTHERS MAY HAVE ACCESS TO THE SAME COMPREHENSIVE ANALYSIS OF THESE SUBJECTS THAT THE COMMISSION SOUGHT TO OBTAIN. IN OUR OWN FINAL REPORT WE WILL NOT BE ABLE TO ADDRESS IN DETAIL EVERY ASPECT OF EACH AREA STUDIED. BUT THOSE WHO SEEK ADDITIONAL INSIGHTS INTO THE COMPLEX PROBLEMS OF EDUCATION IN GENERAL AND SCHOOL FINANCE IN PARTICULAR WILL FIND MUCH CONTAINED IN THESE PROJECT REPORTS.

WE HAVE FOUND MUCH OF VALUE IN THEM FOR OUR OWN DELIBERATIONS. THE FACT THAT WE ARE NOW PUBLISHING THEM, HOWEVER, SHOULD IN NO SENSE BE VIEWED AS ENDORSEMENT OF ANY OR ALL OF THEIR FINDINGS AND CONCLUSIONS. THE COMMISSION HAS REVIEWED THIS REPORT AND THE OTHERS BUT HAS DRAWN ITS OWN CONCLUSIONS AND WILL OFFER ITS OWN RECOMMENDATIONS. THE FINAL REPORT OF THE COMMISSION MAY WELL BE AT VARIANCE WITH OR IN OPPOSITION TO VIEWS AND RECOMMENDATIONS CONTAINED IN THIS AND OTHER PROJECT REPORTS.

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ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

STATE-LOCAL REVENUE SYSTEMS AND EDUCATIONAL FINANCE

A REPORT PRESENTED TO THE
PRESIDENT'S COMMISSION ON SCHOOL FINANCE

NOVEMBER 12, 1971

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PREFACE

This research report was prepared by the staff of the Advisory Commission on Intergovernmental Relations under a contract to the President's Commission on School Finance. Principal investigators were Will S. Myers, Charles F. Revier, John Shannon, and Paul N. Van de Water. Professional assistance was given by L. Richard Gabler, Jacob M. Jaffe , Sandra Osbourn, and Francis X. Tippett. Secretarial work was performed by Diane Cipperly, Jennifer Deel, Gloria Flournoy, Patricia Koch, Elizabeth McCulley, and Ruthamae Phillips. The project also benefitted from comments and assistance by various scholars and public officials.

While the conclusions of this study largely conform to formal recommendations that have been made by the ACIR, the document has not been approved by the Commission and is not an official Commission report. Authority for the staff to conduct this study was given by the Commission at its meeting of January 22, 1971.

John Shannon
Assistant Director

Wm. R. MacDougall
Executive Director

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CHAPTER 1

STATE-LOCAL REVENUE SYSTEMS AND EDUCATIONAL FINANCE

Educational finance occupies a prominent position in the State-local fiscal structure. During most of the past twenty years, the fiscal requirements associated with rising school enrollments, suburban growth and urban poverty resulted in substantial upward pressures on expenditures. Aided by a rising economic tide through most of the period, and abetted by the growing role of Federal and State governments, school finance problems have been held to manageable proportions in most States.

Two recent developments portend more serious difficulties in school finance, both immediately and in the future.

The California State Supreme Court declared that State's method of financing education with the local property tax unconstitutional. A Federal judge in Minneapolis applied the same reasoning to Minnesota's State school aid system. All other States, save Hawaii, have similar educational financing structures.

The public has come to question seriously whether the funds provided for elementary and secondary education are being effectively spent. President Nixon reflected the contemporary attitude toward education in his 1970 message on educational reform when he said, "We will ask the Congress to supply many more dollars for education as we get more education for the dollar."

Thus, the court decisions and the public's demand for better educational performance confront virtually every State with the task of re-examining its State-local fiscal relationships.

School budgets have not stabilized. They continue to rise in response to both program improvements and the impact of inflation. Urban school systems particularly report a fiscal crunch between the steadily increasing teacher pay won in hard bargaining by strong teacher unions and the slow natural growth in local property tax collections. The schools and their spokesmen turn increasingly to the State and Federal government for help. Thus, a once highly local governmental function has evolved into an intergovernmental issue requiring a re-examination of the financing role of the different governmental levels.

The School Financing Mix

From a fiscal standpoint, State and local governments dominate public school financing. School costs are borne roughly 40 percent by the States and 50 percent by localities with the Federal government providing somewhat less than 10 percent.

Table 1-1.--State and Local Expenditure for Education (other than higher) By Governmental Source of Financing, Selected Years 1942-1969

Fiscal Year	Amount (in millions)	Percent Financed From Federal Aid	State funds	Local funds
1969	$35,687	8.6	40.8	50.6
1967	$28,986	10.2	38.6	51.2
1957	$11,994	3.1	36.7	60.3
1942	$ 2,290	5.8	32.9	61.3

Source: ACIR staff computations based on U.S. Bureau of the Census data

In 1965 as part of an anti-poverty effort the Federal dollar support jumped with the passage of the Elementary and Secondary Education Act. After this transfusion of Federal support, however, the upward pace of State-local spending for schools outdistanced growth in Federal categorical school aid.

The locally financed share of school costs has declined relative to both the State and Federal share, but local schools have claimed a rising portion of the local property tax. In 1942, the schools required a mere one-third of the $4.3 billion local property tax yield. By 1970, the schools required 50 percent of the $33 billion local property tax take.

Table 1-2.--School Share of Local Property Taxes, Selected Years 1942-1969

Fiscal Year	Local property taxes (millions)	Percent distribution by type of government			
		School districts 1/	Cities 2/	Counties 2/	Townships and 3/ special districts
1942	$ 4,347	32.9	39.0	20.1	8.0
1952	8,232	39.2	32.7	19.8	8.3
1957	12,285	42.8	29.7	19.2	8.3
1967	25,418	48.9	24.8	18.5	7.8
1969	29,692	50.0	24.1	18.1	7.8
1970	32,963	50.3	23.7	18.1	7.9

1/ Includes est. amounts allocable to dependent city and county school systems.
2/ Excludes est. amounts allocable to dependent school systems.
3/ Townships property taxes in several States are used in part to support dependent school systems.

Source: ACIR staff computations based on U.S. Bureau of the Census data

The Local Scene

Both the educational financing scheme and the property tax are under fire at the present time. With local budgets under pressure for increases in most service areas, serious questions arise as to the capacity of the property tax to finance a significant share of these functions as well as education. The property tax is costly and difficult to administer in an evenhanded objective fashion, even when confined to real estate. The fragmentation of the political landscape and the consequent uneven distribution of the property tax base means that assessable wealth determines spending in most localities. Scholars have long considered this a critical flaw in educational financing, and their view was given legal sanction recently by the California State Supreme Court.

School budget and bond elections yield considerable evidence of stress in the present State-local revenue system. The National Center for Educational Statistics reported for fiscal 1969 the lowest percentage of successful school bond elections, 56.8 percent, of any year since their study was initiated in 1959. 1/ Robert J. Goettel told the American Educational Research Association that the 137 school budget defeats in New York State in 1969 represented 20 percent of the original submission budget elections,

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1/ National Center for Educational Statistics, Bond Sales for Public School Purposes 1968-1969, Washington: Department of Health, Education and Welfare, 1971.

whereas in 1965 the 16 defeats represented 1.7 percent of such elections.[1/] While it is difficult to assess the part played by the mounting school property tax load in these defeats, it is safe to assume that this factor reinforced any nonfiscal factors that may have motivated a citizen to cast a "no" vote.

To minimize inequities resulting from reliance on the local property tax and to assure a continued local financial contribution for school support, it has been suggested that at a minimum the property tax ought to be rehabilitated by: (a) improving assessment administration under strong State supervision, and (b) granting tax relief--financed by State or Federal governments--to those citizens bearing extraordinary burdens in relation to their income. Both practicality and equity argue for such minimal type action at the State level. Recent history suggests that only the courts have been effective in bringing about administrative reform in the property tax. Moreover only the aging as a group have been successful in obtaining relief from extraordinary property tax burdens.

In the larger context of intergovernmental fiscal relations rehabilitation of the property tax falls far short of answering the criticism that the education of youngsters depends too much on the accidents of property tax geography. The decision on educational finance and indeed on State and local tax policy in all States ultimately rests on the State legislature. Legislators

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1/ Robert J. Goettel, "The Relationship Between Selected Fiscal and Economic Factors and Voting Behavior in School Budget Elections in New York State," unpublished paper presented to the American Education Research Association Annual Conference, New York, N.Y., Feb. 4, 1971.

determine the role of each tax source in the State-local revenue system and thereby the distribution of the burden of their educational aid system.

State Aid

A long tradition dating back to Elwood Cubberley in 1905 views the State as the source of funds for equalizing variations in local fiscal capacity. The default of the States in the performance of the equalization role is acknowledged and understood. A recent study described the current deficiencies in State equalization as follows:

> When all state aid (foundation program or basic state aid plus special aids) is added to total local school revenue, the revenue per pupil in average daily attendance was significantly positively correlated with the valuation of property per pupil in eight of the ten States studied. This means that state funds were insufficient in amount or were apportioned in such a manner as to fail to overcome the disequalizing effect of variations in amount of local revenue available per pupil.1/

Having analyzed State equalization experience, Paul Cooper sounded the following note of despair: "The least that can be said is that, after more than sixty years of experience with the foundation program equalization approach, little progress has been made toward making equal (educational) opportunity available."2/ The Speaker of the Minnesota House pinpointed the reason for the lack of equalization in State aid distribution in these terms:

1/ R.L. Johns et al. (eds.), Status and Impact of Educational Finance Programs, Gainesville: National Educational Finance Project, 1971, p. 206.

2/ Paul D. Cooper, "State Takeover of Education Financing," National Tax Journal, 24:347 (September, 1971).

"It's not politically feasible if you have complete equalization. The richer districts would have no aid and the poorest would get the greatest amount." 1/

Competition for Funds

During the fifties and sixties education generally received first crack at both local property tax resources and State aid funds. It had number one priority as the nation entered the Space Age. The growing fiscal pinch at local government level and particularly in the central cities gradually forced State and Federal legislators to reappraise their priorities. Proponents of urban aid at both the State and National levels have grown up to challenge educators for public funds. Health programs, too, are likely to grow as effective competitors for public funds.

Increasingly educators are confronting a "show me" attitude on school spending. To preserve or increase the schools' share of the State-local budget in the face of steady or declining enrollments educators will have to develop reliable measures of student achievement and show real improvements.

A New Financing Mix

Whether schools retain or expand their share of public funds the present system of educational finance will be changing. The scope and direction of this change will be shaped by and will in turn shape the State-local revenue system. The central policy issue that emerges concerns the extent to which the uneven distribution of the local tax base and tax yield shall be allowed to

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1/ Minneapolis Tribune, July 30, 1971

influence the provision of a major governmental activity (education) designed to redistribute economic opportunity.

The Advisory Commission on Intergovernmental Relations and others have argued that the provision of education should not depend to any significant extent on the distribution of local property tax resources. Nor should educational support depend on the distribution of local nonproperty tax resources, should other forms of local taxation be proposed as alternatives. The solution implied by the ACIR approach requires that either State governments or the Federal government or both stand ready with the revenue and aid systems powerful enough to obliterate disparities in local taxing capacity.

It is the purpose of this study to analyze the self-help capabilities of the States to equip themselves with a highly productive State-local revenue system that could underwrite a major share of school costs.

The Critical Question--Can States Take on the Financing Job?

This study finds that the States will have to acquire a revenue generating system powerful enough to support the bulk of public school costs if the provision of elementary and secondary education is not to be influenced by disparities in local fiscal capacity. The study describes the State revenue system implied by this requirement and assesses the prospect of achieving the objective.

Because the States collectively finance only 41 percent of public school costs currently they could expect serious political and fiscal difficulties in moving quickly to displace the local

property tax for schools--now a $20 billion undertaking that grows each year. The political price demanded by taxpayers in exchange for enabling the State to increase income and sales tax rates sharply might well be an effective limit on local property taxes at the level established after dropping the levy for school support.

The prospects of a sharp acceleration in State-revenue raising activity, while not rosy, are not entirely bleak. The States have demonstrated a remarkable capacity for positive action to strengthen their tax and revenue position.

Until the decade of the sixties many State governments managed to get along by relying on selective sales taxes and either a general sales tax or a personal income tax. The selective sales taxes--alcoholic beverage, beer, and cigarette taxes--have little automatic or built-in revenue growth. The general sales tax outperforms them considerably. Growth in the sales tax yield comes from both an increased volume of consumer spending and from rising prices. The yield of this tax therefore grows at about the pace the economy grows. But, the revenue source with the best potential for keeping up with expanding State revenue requirements is the personal income tax.

Increasingly, States have found both the general sales and personal income taxes essential to prevent the opening of a revenue-expenditure gap. The use of these two broadly-based levies has in fact become the standard by which State tax effort is judged, because 36 States and the District of Columbia adhere to it.

Increasing reliance on both income and sales taxes has brought about a significant increase in the State portion of total State and local tax collections. The greater growth responsiveness of State sales and especially income taxes compared to the local property tax will further enhance the States' position as time passes.

Table 1-3.--State and Local Tax Collections
Fiscal Years 1964 and 1970

Item	1964 Amount (millions of dollars)	1964 Percent	1970 Amount (millions of dollars)	1970 Percent
All State & Local taxes.....	49,837	100.0	86,795	100.0
State.....	25,111	50.4	47,962	55.3
Local.....	24,726	49.6	38,833	44.7
By type of tax:				
Property.....	22,350	44.8	34,054	39.2
General sales & gross receipts..	7,612	15.3	16,128	18.6
Individual income...	3,978	8.0	10,812	12.5
Corporation net income.....	1,775	3.6	3,738	4.3
Motor fuel sales....	4,228	8.5	6,324	7.3
Motor vehicle & operators licenses..	2,067	4.1	2,904	3.3
All other.....	7,827	15.7	12,835	14.8

Source: U.S. Department of Commerce, Bureau of the Census Governmental Finances in 1969-70.

Equipped, as many States now are, with a powerful and diversified tax system, they are in a position to avoid the inequities that inevitably arise with intensive use of regressive type taxes such as sales and property levies. For example, several States have pioneered innovative income tax programs to shield low income persons from undue tax burdens.

The personal income tax is an especially valuable revenue instrument in a State-local tax system. It has an automatic growth in yield that most nearly resembles the growth in State-local expenditures.

It opens several possibilites for tax coordination to improve the overall equity of the State-local revenue system, especially income tax credit-tax rebate possibilities in the property and sales tax fields.

New Dimensions in State-Local Tax Policy

The interaction of State tax policy on local taxes is belatedly claiming legislative attention. Perhaps the most noteworthy effort in this connection is the work of the Massachusetts Special Commission to Develop a Master Tax Plan. The major Master Tax Plan proposal is to fix by law the relative amounts of revenue to be raised by the three major tax measures--property, income, and sales. This would be done by a commission composed of State legislative and executive branch members and representatives of local government empowered to establish the tax rates necessary to maintain the relationship between tax sources on a year-by-year basis.

The underlying premise of the Master Tax Plan proposal is that the legislature must henceforth consider both the package of public services the State-local revenue system will support and the quality of the major tax measures that comprise the revenue system. The property tax would no longer be used, in effect, as the residual tax instrument--to fill the gap between an established expenditure level and available revenue from nonproperty tax sources.

The growth of Federal aid and the insistent State-local demand for more of it has spurred policymakers at all governmental levels to give more consideration to the impact of Federal policies on

State-local fiscal problems. For example, Congressional action on welfare reform, revenue sharing or direct aid to schools or cities might so alter the task assigned traditionally to the State-local revenue system as to undermine all efforts to increase reliance on State personal income taxation.

Indeed, the decision of Congress on Federal policy proposals now under discussion will have a profound impact on the role of the States in the Federal system. A massive increase in Federal aid to local schools, for example, would introduce a new element in the debate on how to redress the fiscal imbalance among governmental levels. Not only would this be a rival to other major Federal fiscal moves, but substantial aid to education would also sharpen the debate over the form Federal aid should take.

Federal Policy Alternatives

In view of the growing fiscal tensions within the State-local system, Federal policymakers confront at least four possible policy alternatives.

1. The Traditional Functional Aid Approach--Inject into the present State-local financing system a very substantial new flow of direct Federal aid to education. This new aid would be essentially supportive in character, designed to raise the Federal share of the Nation's school bill from its present 7 percent to something on the order of 25-40 percent.

2. A Self Help Approach--Enable the States to finance most of the cost of local schools by helping them to help themselves on the revenue front. Specifically this would call for the use of Federal tax credits to encourage a substantial increase in State

personal income tax use and perhaps the use of incentive grants to encourage the States to pull regressive stingers from the sales and local property taxes. It might also include Federal financial incentives specifically designed to encourage States to relieve the local property tax of its heavy educational burden and revenue equalization payments to the poorer States.

3. The "Fiscal Relief" Approach--Reduce fiscal tensions for State and local governments generally both by complete Federal assumption of all welfare costs and by the introduction of a general revenue sharing program with State and local governments.

4. An Eclectic Federal Aid Approach--Select from the above three policies those elements that appear to offer the best ingredients of a well-rounded Federal aid program for State and local governments and the Nation's school districts.

CHAPTER 2

THE PRESENT STATE-LOCAL REVENUE SYSTEM

DESCRIPTION

Revenue Yield

In the fiscal year 1969-70 State and local governments raised $109 billion in own-source revenues, comprised of $87 billion in tax receipts and $22 billion in charges and miscellaneous general revenue. Of the tax revenues, 55 percent was collected by the States themselves and the remainder by local governments.

The major State taxes are the general sales tax, the various selective excise taxes, and the individual income tax. Together these three categories accounted for three-quarters of State tax collections in 1970. Over 85 percent of local tax collections is accounted for by a single instrument, the local property tax. These data are described in detail for each State in Table 2-1.

As can be seen from the table, States do not place equal reliance on the same taxes. Some States use certain taxes heavily and others not at all. The range of variations in the use of different taxes is shown in Table 2-2. The table compares actual tax collections with potential collections. Potential collections were calculated by applying, tax by tax, the U. S. average rate to each State's share of the base of each tax measure. It should be noted particularly that there are a few States which are still lacking either a personal income tax or a general sales tax. In the property tax field the State with the highest revenue effort makes four times as much use of that revenue source as the State with the least effort.

TABLE 2-1
STATE AND LOCAL TAX REVENUE BY SOURCE, BY STATE, 1970

Millions of Dollars

State	Total State and Local Taxes	LOCAL TAXES			STATE TAXES			
		Total	Property	Other	Total	General Sales or Gross Receipts	Individual Income	
UNITED STATES, TOTAL	86,823.7	38,861.7	32,991.1	5,870.6	47,962.0	14,177.1	9,182.9	
ALABAMA	891.1	233.8	112.7	121.1	657.4	212.4	85.1	
ALASKA	126.0	40.1	30.7	9.4	86.0	--	32.5	
ARIZONA	753.9	279.6	225.6	54.0	474.3	173.7	65.0	
ARKANSAS	484.0	132.6	123.8	8.7	351.4	108.7	42.5	
CALIFORNIA	11,160.4	5,662.9	4,997.5	665.4	5,497.5	1,756.9	1,150.6	
COLORADO	924.1	454.1	393.3	60.8	470.1	137.8	129.1	
CONNECTICUT	1,470.0	728.2	723.1	5.1	741.8	258.7	4.9	
DELAWARE	246.6	50.9	45.5	5.4	195.6	--	68.5	
DIST. OF COLUMBIA	390.9	390.9	127.8	263.1				
FLORIDA	2,355.7	934.6	767.5	167.2	1,421.1	658.2	--	
GEORGIA	1,431.0	489.7	433.8	55.9	941.3	335.8	184.9	
HAWAII	440.6	100.2	75.7	24.4	340.5	162.7	105.0	
IDAHO	247.6	91.7	89.5	2.2	155.9	41.7	36.7	
ILLINOIS	5,410.1	2,541.4	2,226.8	314.6	2,868.7	1,008.2	575.6	
INDIANA	1,854.6	852.2	848.4	3.8	1,002.4	380.7	216.4	
IOWA	1,232.7	604.3	598.1	6.2	628.3	223.5	112.7	
KANSAS	887.5	456.5	443.8	12.7	431.0	145.4	78.4	
KENTUCKY	962.7	259.7	194.3	65.4	703.0	267.7	121.4	
LOUISIANA	1,205.9	367.1	211.4	155.7	838.8	166.5	48.0	
MAINE	377.7	170.1	168.9	1.2	207.6	83.2	18.9	
MARYLAND	1,890.6	808.5	579.1	229.4	1,082.1	236.8	413.4	
MASSACHUSETTS	2,828.3	1,434.6	1,422.4	12.2	1,393.7	168.4	518.0	
MICHIGAN	4,043.0	1,697.9	1,547.2	150.6	2,345.1	828.5	415.3	
MINNESOTA	1,681.7	660.7	644.4	16.3	1,021.0	195.6	345.7	
MISSISSIPPI	655.7	169.9	153.8	16.1	485.8	227.9	44.2	
MISSOURI	1,603.3	782.4	640.0	142.4	820.9	344.8	129.7	
MONTANA	276.3	147.5	141.8	5.7	128.8	--	38.9	
NEBRASKA	588.3	327.0	307.6	19.4	261.3	74.9	44.4	
NEVADA	252.4	103.3	82.4	20.9	149.1	54.7	--	
NEW HAMPSHIRE	245.6	150.8	149.5	1.3	94.8	--	3.5	
NEW JERSEY	3,206.0	1,873.7	1,684.2	189.6	1,332.3	355.6	17.6	
NEW MEXICO	365.1	91.6	68.0	23.6	273.5	85.7	35.7	
NEW YORK	11,899.1	5,782.6	4,315.6	1,467.0	6,116.5	1,012.0	2,506.4	
NORTH CAROLINA	1,580.1	389.9	376.0	14.0	1,190.2	264.5	270.9	
NORTH DAKOTA	232.1	110.5	106.7	3.8	121.6	42.9	15.4	
OHIO	3,656.3	1,953.6	1,668.2	285.5	1,702.6	658.8	--	
OKLAHOMA	782.7	280.6	238.4	42.2	502.1	93.8	50.5	
OREGON	836.1	405.4	392.0	13.4	430.7	--	213.1	
PENNSYLVANIA	4,734.1	1,956.5	1,366.9	589.6	2,777.6	948.4	--	
RHODE ISLAND	387.6	158.9	157.0	1.9	228.7	78.3	18.6	
SOUTH CAROLINA	710.4	166.7	157.4	9.4	543.7	192.6	95.4	
SOUTH DAKOTA	265.2	152.5	145.8	6.8	112.7	47.7	--	
TENNESSEE	1,096.2	409.3	301.7	107.5	686.9	241.2	12.1	
TEXAS	3,540.7	1,565.6	1,371.0	194.6	1,975.1	552.6	--	
UTAH	396.9	145.3	130.1	15.3	251.6	91.0	61.3	
VERMONT	209.3	74.1	72.8	1.4	135.2	17.1	43.7	
VIRGINIA	1,581.5	625.8	434.2	191.7	955.7	210.0	282.8	
WASHINGTON	1,510.1	482.0	416.9	65.2	1,028.0	546.2	--	
WEST VIRGINIA	525.2	140.2	122.3	17.9	385.0	181.7	40.1	
WISCONSIN	2,246.6	913.8	901.9	12.0	1,332.8	272.6	489.9	
WYOMING	144.1	59.7	57.7	2.0	84.5	31.0	--	

See footnotes at end of table.

TABLE 2-1
STATE AND LOCAL REVENUE BY SOURCE, BY STATE, 1970
(Continued)

STATES	STATE TAXES							
	CORPORATION INCOME	SELECTIVE SALES AND GROSS RECEIPTS					PROPERTY	
		TOTAL	MOTOR FUELS	ALCOHOLIC BEVERAGES	TOBACCO PRODUCTS	OTHER		
UNITED STATES, TOTAL	3,737.9	13,076.5	6,282.9	1,420.2	2,308.0	3,065.4	1,091.7	
ALABAMA	30.8	249.5	116.8	41.7	36.9	54.2	22.9	
ALASKA	5.3	20.4	10.4	4.4	2.7	2.9	- - -	
ARIZONA	20.9	113.2	65.0	9.2	19.5	19.5	67.8	
ARKANSAS	26.2	124.2	74.9	11.4	23.4	14.5	.9	
CALIFORNIA	587.6	1,251.9	672.4	105.8	235.3	238.4	233.5	
COLORADO	33.5	111.6	71.8	11.2	12.3	16.3	1.1	
CONNECTICUT	119.5	258.1	99.2	23.7	56.1	79.0	- - -	
DELAWARE	13.4	42.8	18.3	3.6	9.0	11.9	.3	
DIST. OF COLUMBIA								
FLORIDA	- - -	490.6	225.4	120.5	39.2	105.4	33.6	
GEORGIA	84.7	274.9	154.7	57.8	40.5	21.9	3.1	
HAWAII	14.6	51.2	17.7	7.5	5.8	20.2	- - -	
IDAHO	11.1	39.0	25.3	3.9	4.9	4.9	.8	
ILLINOIS	141.0	797.9	311.3	67.0	153.1 1/	266.4	2.5	
INDIANA	8.6	276.9	192.8	19.9	39.9	24.3	22.8	
IOWA	24.3	156.1	100.8	9.0	29.8	16.4	4.1	
KANSAS	19.3	123.5	81.4	10.0	20.4	11.7	10.4	
KENTUCKY	39.5	189.5	104.6	14.3	11.9	58.7	26.6	
LOUISIANA	34.8	234.1	119.8	31.3	33.2	49.8	26.9	
MAINE	8.3	65.6	36.6	4.7	14.7	9.6	3.8	
MARYLAND	60.1 2/	253.1	111.3	15.7	26.5	99.6	34.1	
MASSACHUSETTS	218.3	356.8	135.8	54.8	75.2	90.9	.3	
MICHIGAN	194.6	487.7	273.7	63.9	85.9	64.1	83.0	
MINNESOTA	79.8	267.4	122.9	34.1	49.4	61.0	5.8	
MISSISSIPPI	19.9	141.8	88.5	13.1	19.7	20.5	3.9	
MISSOURI	21.3	198.7	115.4	12.3	47.1	23.9	2.8	
MONTANA	9.7	48.2	28.8	6.3	5.8	7.3	8.1	
NEBRASKA	8.6	96.1	67.8	6.4	12.0	10.0	2.0	
NEVADA	- - -	73.8	24.1	5.4	7.7	36.7	4.3	
NEW HAMPSHIRE	- - -	62.8	23.9	2.3	13.9	22.8	3.5	
NEW JERSEY	169.2	454.9	200.3	43.6	118.2	92.8	49.8	
NEW MEXICO	8.1	70.2	42.5	4.5	10.5	12.7	14.5	
NEW YORK	693.2	1,174.8	374.8	112.6	256.6	430.8	12.4	
NORTH CAROLINA	112.4	383.2	213.7	57.3	11.7	100.5	23.7	
NORTH DAKOTA	3.0	34.1	19.8	4.5	6.3	3.5	1.4	
OHIO	- - -	660.6	320.2	61.2	121.5	157.7	58.6	
OKLAHOMA	27.5	183.4	90.9	18.2	38.0	36.3	- - -	
OREGON	39.9	90.1	64.5	2.4	12.3	10.9	2.9	
PENNSYLVANIA	529.8	815.3	345.0	88.3	185.7	196.4	32.0	
RHODE ISLAND	23.1	79.1	27.7	5.8	14.9	30.6	- - -	
SOUTH CAROLINA	42.3	174.2	87.2	37.5	17.4	32.0	1.7	
SOUTH DAKOTA	.8	47.3	24.0	5.2	7.0	11.0	- - -	
TENNESSEE	59.6	232.7	130.6	23.2	50.7	28.1	- - -	
TEXAS	- - -	760.4	312.3	54.6	186.4	207.1	64.1	
UTAH	11.8	51.7	37.8	2.3	5.4	6.2	12.8	
VERMONT	5.8	48.8	16.1	9.5	6.5	16.7	.2	
VIRGINIA	67.4	282.3	146.5	34.2	13.8	87.8	12.6	
WASHINGTON	- - -	267.9	140.9	39.5	37.1	50.4	113.1	
WEST VIRGINIA	3.9	118.5	49.9	17.3	14.0	37.2	.3	
WISCONSIN	104.7	267.7	130.5	26.3	58.9	52.0	72.3	
WYOMING	- - -	22.1	16.4	.9	3.2	1.7	10.8	

See footnotes at end of table.

TABLE 2-1
STATE AND LOCAL REVENUE BY SOURCE, BY STATE, 1970
(Continued)

States	STATE TAXES							
	Total	LICENSE TAXES			Death & Gift	Document & Stock Transfers	All Other Taxes	
		Motor Vehicle & Operators	Alcoholic Beverages	Other				
UNITED STATES, TOTAL	4,615.3	2,955.8	119.6	1,540.0	996.4	380.6	703.5	
ALABAMA	51.2	25.8	1.9	23.5	1.4	1.9	2.2	
ALASKA	14.7	5.8	.8	8.2	.2	- -	12.9	
ANIZONA	29.4	21.1	.8	7.5	4.2	- -	- -	
ARKANSAS	40.3	29.9	.5	9.9	.7	- -	7.8	
CALIFORNIA	358.5	271.3	20.0	67.2	156.9	- -	1.6	
COLORADO	43.9	27.1	1.2	15.6	11.9	- -	1.1	
CONNECTICUT	58.0	46.9	4.2	6.9	42.6	- -	- -	
DELAWARE	63.0	10.3	.3	52.3	5.4	2.3	- -	
DIST. OF COLUMBIA								
FLORIDA	176.5	114.7	2.3	59.6	16.0	45.9	.2	
GEORGIA	51.3	37.3	.4	13.5	5.6	*	.9	
HAWAII	4.2	.1	- -	4.1	2.3	.4	- -	
IDAHO	25.6	14.8	.4	10.4	.8	- -	.3	
ILLINOIS	277.9	231.2	1.1	45.6	63.7	2.0	- -	
INDIANA	81.7	63.5	7.2	11.0	15.0	- -	.3	
IOWA	90.0	80.7	2.4	6.9	16.8	.9	- -	
KANSAS	46.2	35.4	.4	10.4	7.2	- -	.6	
KENTUCKY	44.8	30.7	.8	13.3	12.4	1.0	.2	
LOUISIANA	70.7	27.9	1.5	41.4	6.7	- -	251.0	
MAINE	22.9	14.7	.7	7.6	4.9	- -	*	
MARYLAND	69.2	57.4	.2	11.6	11.9	.2	3.4	
MASSACHUSETTS	84.7	50.2	.4	34.1	43.4	3.7	- -	
MICHIGAN	307.8	154.5	5.7	147.6	26.5	- -	1.7	
MINNESOTA	84.6	66.8	.3	17.5	20.0	3.0	19.0	
MISSISSIPPI	31.8	14.4	.1	17.3	2.0	- -	14.3	
MISSOURI	111.6	75.1	1.4	35.0	12.0	- -	- -	
MONTANA	15.0	7.9	.8	6.3	4.2	- -	4.7	
NEBRASKA	33.2	25.4	.1	7.6	.8	.5	.8	
NEVADA	15.4	9.5	*	5.9	- -	.6	.3	
NEW HAMPSHINE	19.2	13.6	.3	5.4	3.8	.4	1.7	
NEW JERSEY	219.6	133.4	1.0	85.2	65.6	- -	- -	
NEW MEXICO	22.2	16.2	.2	5.8	1.7	- -	35.4	
NEW YORK	323.0	240.9	33.2	48.8	127.9	266.8	- -	
NORTH CAROLINA	116.5	67.1	.3	49.1	18.9	- -	*	
NORTH DAKOTA	20.8	16.7	.2	3.9	.8	- -	3.2	
OHIO	306.8	159.2	10.0	137.6	17.9	- -	- -	
OKLAHOMA	80.9	65.7	.8	14.4	14.5	1.0	50.5	
OREGON	68.8	48.5	.7	19.5	14.1	- -	1.9	
PENNSYLVANIA	322.7	126.2	8.1	188.4	98.9	30.6	- -	
RHODE ISLAND	20.6	16.3	.1	4.3	8.6	.3	- -	
SOUTH CAROLINA	31.4	17.8	1.2	12.4	3.5	2.7	- -	
SOUTH DAKOTA	15.0	10.7	.1	4.1	2.0	- -	*	
TENNESSEE	116.4	62.6	.4	53.4	18.1	4.9	1.9	
TEXAS	301.7	165.8	3.1	132.8	23.1	*	273.2	
UTAH	15.6	10.6	.1	4.9	3.1	- -	4.3	
VERMONT	15.3	12.2	.2	2.9	2.3	1.0	0.9	
VIRGINIA	79.1	63.2	.6	15.3	12.2	8.2	1.2	
WASHINGTON	74.2	49.6	2.0	22.5	25.4	1.3	- -	
WEST VIRGINIA	34.2	27.4	1.0	5.8	5.0	.8	.7	
WISCONSIN	91.5	71.4	.1	19.9	32.6	.3	1.1	
WYOMING	15.8	10.0	*	5.7	0.6	- -	4.3	

* Less than $50,000.

1/ Includes related license taxes
2/ Includes portions of the corporation excise taxes and surtaxes measured by corporate excess. Separation not available.

Source: U.S. Bureau of the Census, Governmental Finances in 1969-70; State Government Finances in 1970.

TABLE 2-2.--MEASURES OF RELATIVE EFFORT FOR SELECTED TAX SOURCES: 1966-67

Type of tax	Relative State-local tax effort (actual revenue as a per cent of potential revenue at US..-average rates)		
	Highest State	Lowest State	High-low range
All taxes	138 (N.Y.)	71 (Nev.)	1.9 to 1
"Personal taxes".			
Including residential property	168 (Hawaii)	54 (Neb.)	3.1 to 1
Excluding residential property	228 (Hawaii)	38 (Neb.)	6.1 to 1
"Business taxes":			
Including farm property	140 (Calif.)	46 (W.Va.)	3.0 to 1
Excluding farm property	149 (Idaho)	45 (W.Va.)	3.3 to 1
Property taxes	155 (Minn.)	37 (Ala.)	4.2 to 1
Local property taxes on –			
Nonfarm residential property	181 (S. Dak.)	17 (La.)	10.6 to 1
Business property	165 (Mont.)	24 (Del.)	6.9 to 1
Sales and gross receipts taxes:			
All	215 (Hawaii)	47 (Neb., Ore.)	4.6 to 1
General	277 (Hawaii)	0 (several)	xxx
Selective	160 (Wash.)	70 (Mo.)	2.3 to 1
Individual income	315 (Wis.)	0 (several)	xxx
Corporation	338 (Del.)	8 (Ill.)	42.3 to 1
Motor vehicle	267 (Mass.)	29 (La.)	9.2 to 1
Death and gift	200 (Wash.)	0 (Nev.)	xxx

Note: Personal taxes are defined as (1) comprising all general and selective sales taxes, individual income and earnings taxes, death and gift taxes, and local nonfarm residential property taxes or (2) excluding residential property taxes. Business taxes are defined as (1) comprising corporation taxes, severance taxes, and local taxes on business and farm property or (2) excluding farm property taxes.

Source: ACIR, Measuring the Fiscal Capacity and Effort of State and Local Areas.

Revenue Growth

State-local government revenues have demonstrated a very rapid rate of growth in recent years. Nationwide, State-local revenue yields from own sources were only $9.5 billion in 1942. As a proportion of the Gross National Product, State-local receipts have grown from six percent in 1942 to eleven percent in 1970.

Among the States Nevada showed the largest percentage increase in the amount of own source revenue between 1942 and 1969. (See Appendix Table 1.) North Dakota showed the least percentage increase. The State-local tax take in Nevada was twenty times greater in 1969 than it was in 1942. In North Dakota it was only about five times greater.

When State and local own source revenue is compared on a per capita basis, Georgia showed the largest percentage increase between 1942 and 1969. New Hampshire showed the least percentage increase. Per capita State and local revenue from own sources in Georgia went from $36 to $363 between 1942 and 1969. In New Hampshire it went from $79 to $366 per capita between 1942 and 1969. Over this span of 27 years, New Hampshire achieved the distinction of being the only State without either a broad-based sales or personal income tax and had the lowest per capita revenue from State revenue sources--$156 compared to a national level of $244.

Between 1942 and 1969, the State portion of own source revenues increased more rapidly than the local portion in all but seven States--Arizona, Arkansas, California, New Mexico, Ohio, Oklahoma and Washington. Since State revenues are mainly from nonproperty tax sources and local

revenues are, in the main, property taxes, the evident tendency in most States was to reduce reliance of the State-local sector on the property tax.

Balanced Use of Income and Sales Taxes

The Depression of the 1930's and the unremitting expenditure pressures on States and localities in the 1950's and 1960's stand out as the two most important developments that have shaped State-local revenue systems.

Prior to 1930 fifteen States had successfully imposed a personal income tax. The general retail sales tax had yet to be discovered. But by the end of the thirties sixteen States had enacted both a general sales tax and a personal income tax to overcome the impact of the Depression on State-local revenues. (These States were Alabama, Arizona, Arkansas, California, Colorado, Hawaii, Iowa, Kansas, Louisiana, Mississippi, Missouri, New Mexico, North Carolina, North Dakota, Oklahoma, and Utah.) By enacting general sales taxes, Maryland in 1947 and Georgia and South Carolina in 1951 joined the group of States using two major broad-based tax sources at the State level. The dual tax ranks remained unchanged at nineteen States throughout the remainder of the 1950's.

Between 1960 and the present, however, seventeen more States were added to the dual tax ranks. Eight States began levying a general sales tax as part of a revenue system that previously had depended on the personal income tax as the major broad-based levy. (Idaho, Kentucky, Massachusetts, Minnesota, New York, Vermont, Virginia, and Wisconsin.) Eight States enacted a broad-based personal income tax to complement

a general retail sales tax already on the statute books. (Illinois, Indiana, Ohio, Maine, Michigan, Pennsylvania, Rhode Island, and West Virginia.) Nebraska adopted a general sales and a personal income tax simultaneously as an integrated State revenue package.

Thus, despite conflicting tax policy objectives, a consensus is developing in many States at the center of the tax policy spectrum. The personal income tax meets liberal demands for progression, while the sales tax satisfies conservatives. Balanced use of these two taxes breaks the ideological deadlock and allows States to develop a tax system capable of producing substantial amounts of revenue.

Business Taxes

Although individuals, in the final reckoning, pay all taxes, there is an interest in most States in making businesses bear some of the initial tax impact. Business taxes are generally popular politically, but legislators are constrained by the need to provide a competitive tax environment for local firms. On balance, the place of business taxes in the State-local fisal system has been declining over the past decade, as shown in Table 2-3. At the present time the business portion of the property tax represents more than half of State-local revenues collected in the first instance from businesses. The rest comes from corporate net income taxes, gross receipts taxes, franchise and license fees, severance taxes, and document and stock transfer taxes. (Table 2-4)

TABLE 2-3.--RELATIONSHIP OF STATE AND LOCAL TAXES WITH AN INITIAL IMPACT ON BUSINESS TO TOTAL STATE AND LOCAL TAXES, BY STATE, 1957, 1962, AND 1967[1]

[Excluding Sales Taxes]

(Dollar amounts in millions)

STATES	Total State and local taxes			State and local taxes on business			Taxes on business as % of total taxes			
	1967	1962	1957	1967	1962	1957	1967	1962	1957	% change 1957-1967
United States	$61,000.3	$41,554.2	$28,645.1	$17,934.0	$13,329.9	$9,791.7	29.4	32.1	34.2	-14.0
Alabama	677.4	436.7	318.4	154.6	106.7	82.8	22.8	24.4	26.0	-12.3
Alaska	85.8	52.4	n.a.	23.5	16.1	n.a.	27.4	30.7	n.a.	n.a.
Arizona	523.7	328.0	182.6	139.4	98.5	59.7	26.6	30.0	32.7	-18.7
Arkansas	392.5	254.8	177.5	82.1	58.6	47.3	20.9	23.0	26.6	-21.4
California	7,785.2	5,142.9	3,304.0	2,391.0	1,637.5	1,082.7	30.7	31.8	32.8	- 6.4
Colorado	677.7	475.7	313.2	190.8	148.1	98.2	28.2	31.1	31.4	-10.2
Connecticut	982.6	684.0	460.8	308.2	234.3	150.4	31.4	34.3	32.6	- 3.7
Delaware	177.6	112.3	58.6	51.2	34.3	16.3	28.8	30.5	27.8	+ 3.6
Dist. of Col.	274.9	183.0	142.7	78.7	55.0	44.3	28.6	30.1	31.0	- 7.7
Florida	1,623.1	1,061.3	663.3	416.0	330.3	214.9	25.6	31.1	32.4	-21.0
Georgia	1,025.0	627.4	467.9	256.3	167.4	118.7	25.0	26.7	25.4	1.6
Hawaii	300.5	173.8	n.a.	48.0	30.1	n.a.	16.0	17.3	n.a.	n.a.
Idaho	205.2	136.4	99.8	62.2	46.0	34.4	30.3	33.7	34.5	-12.2
Illinois	3,249.6	2,461.9	1,723.7	804.2	683.4	516.4	24.7	27.8	30.0	-17.7
Indiana	1,471.3	951.1	635.3	399.2	363.5	236.5	27.1	38.2	37.2	-27.2
Iowa	918.9	638.3	487.6	170.0	139.9	96.8	18.5	21.9	19.9	- 7.0
Kansas	717.1	518.6	367.4	185.7	149.3	109.3	25.9	28.8	29.7	-12.8
Kentucky	674.2	466.8	323.1	136.4	111.7	93.9	20.2	23.8	28.9	-30.1
Louisiana	958.8	655.1	497.2	488.8	348.9	238.8	51.0	53.3	48.0	+ 6.3
Maine	253.2	197.3	140.0	63.4	51.6	40.5	25.0	26.2	28.9	-13.5
Maryland	1,172.4	713.8	460.2	291.9	189.3	132.3	24.9	26.5	28.7	-13.2
Massachusetts	2,004.2	1,422.7	1,014.9	530.5	440.6	341.2	26.5	31.0	33.6	-21.1
Michigan	2,715.2	1,896.2	1,319.9	838.1	655.5	490.9	30.9	34.6	35.3	-12.5
Minnesota	1,256.4	868.6	597.9	409.3	311.4	237.6	32.6	35.9	39.7	-17.9
Mississippi	461.3	316.8	233.5	128.3	104.7	75.9	27.8	33.0	32.5	-14.5
Missouri	1,198.9	818.6	551.2	285.9	219.7	158.0	23.8	26.8	28.7	-17.1
Montana	212.8	162.1	125.4	76.4	60.7	48.6	35.9	37.4	38.8	- 7.5
Nebraska	389.6	270.7	200.1	77.1	58.2	46.5	19.8	21.5	23.2	-14.7
Nevada	166.2	95.2	59.9	57.3	32.0	22.1	34.5	33.6	36.9	- 6.5
New Hampshire	176.9	125.5	86.6	45.1	35.1	27.5	25.5	28.0	31.8	-19.8
New Jersey	2,239.8	1,507.9	987.1	724.4	561.4	402.7	32.3	37.2	40.8	-20.8
New Mexico	271.8	187.2	127.6	86.7	68.3	35.7	31.9	36.5	28.0	+13.9
New York	8,423.6	5,451.5	3,711.6	2,617.2	1,755.1	1,305.0	31.1	32.2	35.2	-11.6
North Carolina	1,129.3	738.8	501.5	316.5	217.3	162.8	28.0	29.4	32.5	-13.8
North Dakota	178.4	134.9	107.8	40.7	31.7	25.0	22.8	23.5	23.2	- 1.7
Ohio	2,612.1	1,980.2	1,398.2	872.1	687.4	439.2	33.4	34.7	31.4	+ 6.4
Oklahoma	629.0	458.1	344.7	200.3	141.9	117.5	31.8	31.0	34.0	- 6.5
Oregon	631.3	417.9	347.9	201.8	144.0	123.2	32.0	34.5	35.4	- 9.6
Pennsylvania	3,241.8	2,335.6	1,769.8	915.6	689.3	676.3	28.2	29.5	38.2	-26.2
Rhode Island	266.9	188.7	129.7	75.5	53.8	43.1	28.3	28.5	33.2	-14.8
South Carolina	510.8	330.6	244.8	147.3	89.2	69.6	28.8	27.0	28.4	+ 1.4
South Dakota	204.5	152.2	112.2	38.6	29.4	20.8	18.9	19.3	18.5	+ 2.2
Tennessee	820.7	528.3	402.8	210.4	143.8	106.8	25.6	27.2	26.5	- 3.4
Texas	2,471.2	1,850.8	1,253.3	982.5	836.7	652.6	39.8	45.2	52.1	-23.6
Utah	299.6	205.1	136.3	86.9	69.1	52.1	29.0	33.7	38.2	-24.1
Vermont	133.9	92.1	64.5	32.2	24.1	17.3	24.0	26.2	26.8	-10.4
Virginia	1,070.7	623.5	423.0	285.0	213.5	157.5	26.6	34.2	37.2	-28.5
Washington	1,108.6	759.6	511.8	313.9	225.0	156.4	28.3	29.6	30.6	- 7.5
West Virginia	400.4	306.4	218.9	145.1	110.6	90.8	36.2	36.1	41.5	-12.8
Wisconsin	1,517.6	974.6	706.6	407.6	291.1	250.5	26.9	29.9	35.5	-24.2
Wyoming	110.3	82.0	60.3	44.2	29.0	24.3	40.1	35.4	40.3	- 0.5

n.a. Data not available.

[1] Excluding unemployment compensation.

Source: Estimates prepared by ACIR staff from data published by the Governments Division, U.S. Bureau of the Census, and U.S. Department of Agriculture; and supplementary data supplied by several States.

TABLE 2-4.– STATE AND LOCAL TAXES WITH AN INITIAL IMPACT ON BUSINESS, BY TYPE OF TAX, BY STATE, 1967[1]

[Excluding Sales Taxes]

(In millions of dollars)

States	Total	Property	Corporation net income	Gross receipts[2]	Licenses[3]	Severance	Document and stock transfer	Other
United States...	17,934.0	10,298.4	2,478.6	2,110.6	2,085.0	577.1	234.9	149.3
Alabama.....	154.6	50.6	29.9	20.5	49.6	1.8	1.6	0.6
Alaska.....	23.5	7.9	3.5	2.1	5.9	4.1	--	--
Arizona.....	139.4	103.7	14.4	12.2	9.1	--	--	--
Arkansas.....	82.1	34.5	25.1	8.8	9.2	4.5	--	--
California.....	2,391.0	1,626.1	452.6	146.3	148.8	1.5	--	15.7
Colorado.....	190.8	130.2	25.8	13.5	20.2	1.1	--	--
Connecticut.....	308.2	163.7	80.1	47.9	12.9	--	--	3.6
Delaware.....	51.2	8.9	12.7	3.2	24.6	--	1.8	--
Dist. of Columbia..	78.7	41.3	14.9	12.7	8.3	--	1.5	--
Florida.....	416.0	220.7	--	80.2	87.1	.2	27.8	--
Georgia.....	256.3	140.6	64.6	20.3	30.8	--	--	--
Hawaii.....	48.0	18.0	10.5	14.3	5.1	--	.1	--
Idaho	62.2	41.6	9.6	4.4	6.4	.2	--	--
Illinois.....	804.2	555.2	--	177.9	71.1	--	--	--
Indiana.....	399.2	297.7	14.5	72.2	14.5	.3	--	--
Iowa.....	170.0	134.1	12.0	12.4	11.5	--	--	--
Kansas.....	185.7	134.9	23.9	13.3	12.8	.5	--	0.3
Kentucky.....	136.4	58.5	46.3	12.3	18.2	.2	.9	--
Louisiana.....	488.8	150.4	34.4	29.7	59.0	215.3	--	--
Maine.....	63.4	52.1	--	7.3	4.0	--	--	--
Maryland.....	291.9	180.4	40.8	40.8	29.8	--	.1	--
Massachusetts.....	530.5	302.1	56.0	28.3	142.3	--	1.8	--
Michigan.....	838.1	522.7	9.1	35.0	142.1	1.0	--	128.2[5]
Minnesota.....	409.3	250.6	69.6	49.0	17.8	21.[illegible]	1.3	--
Mississippi.....	128.3	69.2	17.0	10.7	20.2	11.2	--	--
Missouri.....	285.9	183.0	21.0	41.5	40.4	[6]	--	--
Montana.....	76.4	54.5	7.6	5.2	5.6	3.5	--	--
Nebraska.....	77.1	59.2	--	7.2	10.0	.7	--	--
Nevada.....	57.3	33.2	--	2.9	21.2	[6]	--	--
New Hampshire.....	45.1	37.6	--	3.9	3.5	.1	--	--
New Jersey.....	724.4	443.2	48.5	142.7	90.0	--	--	--
New Mexico.....	86.7	31.9	6.5	6.9	10.1	31.3	--	--
New York.....	2,617.2	1,408.3	637.1	241.6	168.7	--	161.5	--
North Carolina.....	316.5	113.8	98.5	63.4	40.8	--	--	--
North Dakota.....	40.7	25.2	3.3	2.9	5.8	3.5	--	--
Ohio.....	872.1	625.7	17.8	106.6	122.0	--	--	--
Oklahoma.....	200.3	98.3	21.5	21.8	13.2	45.5	--	--
Oregon.....	201.8	123.0	32.2	14.6	31.2	.8	--	--
Pennsylvania.....	915.6	303.3	244.5	73.8	269.7	--	24.3	--
Rhode Island.....	75.5	40.2	17.5	10.9	6.0	--	--	0.9
South Carolina.....	147.3	65.8	43.4	17.8	18.1	--	2.2	--
South Dakota.....	38.6	27.2	.6	3.1	7.5	.2	--	--
Tennessee.....	210.4	95.1	43.3	23.3	46.2	--	2.5	--
Texas.....	982.5	573.1	--	96.8	87.8	224.7	.1	--
Utah.....	86.9	63.3	11.0	4.8	4.5	3.3	--	--
Vermont.....	32.2	21.1	4.9	3.5	2.7	--	--	--
Virginia.....	285.0	107.6	49.3	73.4	48.8	.3	5.6	--
Washington.....	313.9	127.3	--	154.0	31.5	--	1.1	--
West Virginia.....	145.1	50.6	--	79.1	14.6	--	.8	--
Wisconsin.....	407.6	251.5	102.8	31.8	21.4	.1	--	--
Wyoming.....	44.2	39.7	--	1.8	2.6	.1	--	--

[1] Excluding unemployment compensation.
[2] Insurance premium, utility, and general gross receipts taxes on business firms.
[3] Corporation franchise and miscellaneous business and occupational licenses.

[5] Business activities tax.
[6] Less than $50,000.

Source: Estimates prepared by ACIR staff from data published by the Governments Division, U.S. Bureau of the Census, and U.S. Department of Agriculture; and supplementary data supplied by several States.

MAJOR ISSUES

Distribution of tax burdens and expenditure benefits

The fairness of a state-local fiscal system depends on two things--the distribution of benefits from government expenditures and the distribution of the tax burden. While there are no hard data on the subject, economic theory suggests that state and local taxes are somewhat regressive, but that the benefits of state and local expenditures are largely pro-poor. Therefore, on balance, it is likely that the state-local fiscal system redistributes resources from the upper to the lower income brackets.

The standard picture of the state-local tax and expenditure system derives from the work of W. Irwin Gillespie and George Bishop.[1] The Gillespie and Bishop methodology has recently been used by Roger Herriot and Herman Miller to produce tax and expenditure incidence estimates for 1968. Table 2-5 shows the estimated distribution of taxes, expenditures, and income by income brackets. Table 2-6 expresses federal and state tax collections as a percentage of factor income (income from land, labor, and capital), in both cash and non-cash forms, plus transfer payments received. Of the taxes shown, the federal

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[1] W. Irwin Gillespie, "Effect of Public Expenditures on the Distribution of Income," in Richard A. Musgrave (ed.), Essays in Fiscal Federalism, Washington: Brookings Institution, 1965; George Bishop, Tax Burdens and Benefits of Government Expenditures by Income Class. New York: Tax Foundation, 1967.

TABLE 2-5.--FACTOR INCOME, TRANSFERS, TAX PAYMENTS, AND EXPENDITURE BENEFITS BY ADJUSTED MONEY INCOME BRACKET, 1968 ($ Billions)

Adjusted money income bracket	Under $2000	$2000-3999	$4000-5999	$6000-7999	$8000-9999	$10000-14999	$15000-24999	$25000 & over
Total factor income	6.2	23.7	47.4	77.7	93.7	219.5	190.3	145.9
Transfer payments received	6.6	11.5	9.3	6.7	5.2	8.6	5.7	2.1
Total taxes paid	3.1	8.2	14.7	23.4	27.4	65.5	57.1	54.6
Total federal taxes	1.4	4.4	9.0	15.1	17.9	43.6	39.3	43.9
Personal income tax	0.0	0.8	2.5	5.0	6.9	19.2	18.9	22.7
Corporate income tax	0.4	1.0	1.7	2.5	2.7	6.4	7.5	15.3
Social Security tax	0.5	1.5	3.2	5.3	5.8	12.7	8.8	2.8
Total state & local taxes	1.7	3.7	5.7	8.3	9.5	21.8	17.8	10.8
Property tax	1.0	1.8	2.3	3.0	3.4	8.0	6.9	3.6
Sales tax	0.4	1.2	1.9	2.8	3.1	6.5	4.5	2.2
Gov't expenditure benefits	19.6	27.0	28.3	30.4	27.9	47.6	26.1	8.0

Source: Roger A. Herriot and Herman P. Miller, "Changes in the Distribution of Taxes Among Income Groups: 1962 to 1968," Paper presented at meeting of American Statistical Association, August, 1971, Tables 2, 4, and 7.

TABLE 2-6.--TAX PAYMENTS AS PERCENT OF FACTOR INCOME PLUS TRANSFERS BY ADJUSTED MONEY INCOME BRACKET, 1968

Adjusted money income bracket	Under $2000	$2000-3999	$4000-5999	$6000-7999	$8000-9999	$10000-14999	$15000-24999	$25000 & over
Total federal taxes	10.9	12.5	15.9	17.9	18.1	19.1	20.1	29.7
Personal income tax	0.6	2.3	4.4	5.9	7.0	8.4	9.6	15.3
Corporate income tax	3.1	2.8	3.0	3.0	2.7	2.8	3.8	10.3
Social Security tax	3.9	4.3	5.6	6.3	5.9	5.6	4.5	1.9
Total state & local taxes	13.3	10.5	10.1	9.8	9.6	9.6	9.1	7.3
Property tax	7.8	5.1	4.1	3.6	3.4	3.5	3.5	2.4
Sales tax	3.1	3.4	3.4	3.3	3.1	2.8	2.3	1.5

Source: Computed from data in Table 2-5.

income tax is steeply progressive throughout, while the sales and property taxes both display regressive elements.

The work of Gillespie, Bishop, and Herriot and Miller rests on three crucial assumptions. First, the distribution of the benefits of non-specific public goods, such as police and fire protection, by number of families assumes that a dollar of private income is worth the same to a poor family as to a rich one. Henry Aaron and Martin McGuire have recently shown that if a dollar spent on private goods is worth less to an individual as his income rises, then the standard analysis understates the tax burden on the poor and overstates their evaluation of public goods. At the other end of the scale, Aaron and McGuire suggest that the traditional view overstates the burden of the fiscal system on the rich, since it places too little weight on their desire for publicly provided goods and services.[1] If the satisfaction that the individual gains from an additional dollar of private income declines particularly rapidly as income rises, the burden of the fiscal system will weigh entirely on the middle income groups, with both low- and high-income individuals receiving net gains.

Second, Gillespie and his followers have assumed that the residential portion of the property tax is borne by individuals in proportion to their spending for housing, and that the business property tax is passed on to consumers in proportion to

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[1]Henry Aaron and Martin McGuire, "Public Goods and Income Distribution," Econometrica, 38: 907-20 (November, 1970).

their overall consumption expenditures. This follows the approach of Dick Netzer, who considers the property levy to be a kind of excise tax on housing and other goods.[1]

Other economists view the property tax as one of several taxes on capital, which are borne by owners of capital. Although housing and farms are taxed most heavily under the property levy, these activities pay little corporate income tax, as shown in Table 2-7. Since a tax on capital and a tax on capital income may be considered equivalent, housing capital is actually taxed less heavily than average. According to this view the tax system works to lower rather than increase the price of housing relative to that of other goods and services. As between different communities, the price of housing may be higher in areas where the property tax is high than in areas where the tax rate is low. But not all of the differences in property tax rates need be reflected in rents, since part may be capitalized in the value of land and structures.[2]

Under either analysis of the property tax, the levy is proportional for the broad middle range of incomes, but regressive for those in the lowest brackets. Using the excise tax approach, Miller and Herriot found the effective rate of the property tax roughly constant for families with incomes between $6,000 and $25,000, but sharply higher below that level, as shown in Table 2-6.

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[1] Dick Netzer, Economics of the Property Tax, Washington: Brookings Institution, 1966, chap. 3.

[2] Peter Mieskowski, "The Property Tax: An Excise Tax or a Profits Tax?" Yale University, unpublished Cowles Foundation discussion paper, November, 1970.

TABLE 2-7.--TAXES AS PERCENT OF INCOME FROM CAPITAL, 1953-59

	Corporate Profits Tax (Fed. & State)	Property Tax	Total
All non-financial	23.1	14.2	37.3
Manufacturing	40.7	6.7	47.4
Residential real estate	1.2	26.7	27.9
Agriculture, forestry, and fishing	0.9	16.5	17.4
Mining	19.4	10.9	30.3
Construction	27.2	9.2	36.4
Trade	22.9	9.2	32.1
Transportation	28.3	17.6	45.8
Communications and Utilities	33.9	16.8	50.7
Services	18.1	15.9	34.0

Source: Leonard G. Rosenberg. "Taxation of Income from Capital, by Industry Group," in Arnold C. Harberger and Martin J. Bailey (eds.) The Taxation of Income from Capital. Washington: Brookings Institution, 1969.

Using the wealth tax approach, the effective rate of the property tax is fairly uniform for incomes between $3,000 and $25,000, the range in which the ratio of wealth to income holds steady, according to 1962 data. (See Table 2-8.) If more recent wealth data were available, the correspondence between these two analyses of the property tax burden would most likely be very close.

The third crucial assumption in incidence analysis concerns the distribution of the burden of business taxes, particularly the corporation net income (profits) tax. Many writers have held that much of the burden of this tax is shifted to consumers in the form of higher prices. But more recent and careful investigations suggest that capital bears almost the full amount of the tax.[1] Gillespie and Miller and Herriot adopt a compromise between these two poles and assume that two-thirds of the corporate income tax is distributed in proportion to dividends, and the remainder in proportion to general consumption expenditures.

On balance it thus appears that state-local tax systems are regressive, and that the most regressive elements are the property tax, general sales tax, and selective excises. Although state and local expenditures give benefits to low income groups, the state-local fiscal system could be made more pro-poor by making greater use of the personal income tax.

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[1] J. Cragg, A. Harberger, and P. Mieskowski, "Empirical Evidence on the Incidence of the Corporation Income Tax," Journal of Political Economy, 75: 811-21 (December, 1967); Robert J. Gordon, "The Incidence of the Corporation Income Tax in U.S. Manufacturing," American Economic Review, 57: 731-58 (September, 1967).

TABLE 2-8.--AVERAGE WEALTH OF FAMILIES, 1962

Income Bracket	Average Family Wealth	Wealth/ Income	Value of home equity	Home equity/ income
$ 0 - 2999	$ 7,609	5.1	$ 3,204	2.1
3000 - 4999	10,025	2.5	3,390	0.8
5000 - 7499	13,207	2.1	4.495	0.7
7500 - 9999	19,131	2.2	7,075	0.8
10000 - 14999	28,021	2.2	9,566	0.8
15000 - 24999	62,996	3.1	15,053	0.8
25000 - 49999	291,317	7.8	32,528	0.9
50000 - 99999	653,223	8.7	38,298	0.5
100000 and over	1,698,021	-	88,248	-

Source: U.S. Department of Commerce, Bureau of the Census. Statistical Abstract of the United States, 1968. Washington: 1968. Page 333.

The income test and the income tax

There is, in fact, a growing consensus that income is the most appropriate measure of ability to pay. This is reflected in the recent increase in use of the proportional or progressive income tax. Further, the income tax mechanism is coming into use to blunt the regressive impact of property and sales taxes.

Forty States now have broad-based personal income tax laws. The States that have had income taxes for some time have made increasing use of this tax source. State personal income taxes, which represented 4.5 percent of State and local general revenues from own sources in 1957, accounted for 8.4 percent of the total by 1970. In ten States, the personal income tax yielded 15 percent or more of total State-local own source revenue in 1969. In 1957, just three States--Alaska, Delaware, and Oregon--used the personal income tax to that same degree. (See Appendix Table 10.)

As State policymakers have confronted the need to impose heavier tax burdens on individuals and families, they have become more sensitive to the regressive impact of the general retail sales tax and the local residential property tax. Fifteen States grant food purchases outright exemption from their sales levies to help minimize regressivity. Twenty-six State sales tax laws give purchases of drugs and medicines similar treatment. These techniques are costly in terms of revenue foregone, because they apply across the board to all taxpayers regardless of their income status. They are also costly of administration because they require vendors to distinguish between taxable

and exempt sales and sales tax auditors to ferret out fraudulent exemption claims.

Indiana demonstrated that the regressive impact of one tax can be substantially mitigated by using the personal income tax as a coordinating device. In 1963, Indiana adopted personal income tax credits for tax payments on food and prescription medicines with cash refunds for persons with incomes either too low to take full advantage of the tax credit or with incomes below the filing requirement. When Nebraska adopted its integrated personal income and sales tax package in 1967, the sales tax credit-rebate approach was included. Iowa and Hawaii went a step further than Indiana by providing for a credit that diminished with the size of the taxpayer's income.

Wisconsin extended the credit-rebate idea to local residential property tax in 1964 by permitting the elderly to credit excessive local property tax payments (essentially over 5 percent of household income) against their State income tax liability. Elderly renters were granted this relief also, for it was assumed that 25 percent of their shelter payments go into property taxes. Because the great majority of the beneficiaries have little or no State income tax liability, they have in effect a negative tax credit and are entitled to cash rebate.

The idea of using the State tax system and more specifically the State personal income tax as a tax coordinating device has grown in favor with State tax policy makers. (See Table 2-9.)

TABLE 2-9.-- STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES[1]

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Colorado	For sales tax paid on food	1965	$7 per personal exemption (exclusive of age and blindness)	Chap. 138, Art. 1, (secs. 138-1-18 & 138-1-19 added by H.B. 1119, laws 1965, effective 6/1/65)	Credit to be claimed on income tax returns. For resident individuals without taxable income a refund will be granted on such forms or returns for refund as prescribed by the Director of Revenue.
Hawaii	For consumer-type taxes	1965	Varies based on income[2]	Chap. 121 (Secs. 121-12-1 & 121-12-2 added by Act 155 laws 1965)	The Director of Taxation shall prepare and prescribe the appropriate form or forms to be used by taxpayers in filing claims for tax credits. The form shall be made an integral part of the individual net income tax return. In the event the tax credits exceed the amount of the the income tax payments due, the excess of credits over payments due shall be refunded to the taxpayer.
	For drug or medical expenses	1970	do	Act 180, Laws 1970; sec. 235-56	
	For household rent	1970	do	Act 180, Laws 1970	
Idaho	For sales taxes paid	1965 and 1969	$10 credit per personal exemption (rebate applicable to taxpayers 65 and over only)	Chap. 195, laws 1965. Chap. 456, laws 1969; Sec. 63-3024 (d)	Credit (or rebate if credit exceeds tax liability) to be claimed on income tax returns. For resident individuals (65 and over) without taxable income a refund will be granted on such forms or returns for refund as prescribed by the State Tax Commission.
Indiana	For sales tax paid on food	1963	$8 per personal exemption (exclusive of age and blindness)	Chap. 50 (Chap. 30, Sec. 6d added by H.B. 1226, laws 1963, 1st sp. sess., effective 4/20/63)	Credit to be claimed on income tax returns. If an individual is not otherwise required to file a return, he may obtain a refund by filing a return, completing such return insofar as may be applicable, and claiming such refund.
Kansas	For senior citizen homestead relief	1970	Varies, based on income and amount of property tax	Chap. 403 (H. B. 1253, Laws 1970)	Tax credit (or rebate if credit exceeds tax liability). The department of revenue shall make available suitable forms with instructions for claimants, including a form which may be included with or a part of the individual income tax blank.
Massachusetts	For consumer-type taxes	1966	$4 for taxpayer, $4 for spouse, if any, and $8 for each qualified dependent[4]	Chap. 62 (Sec. 6b added by ch. 14, Acts 1966)	Same as Indiana.

See footnotes at the end of table.

TABLE 2-9.-- STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES[1] (Cont'd)

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Minnesota	For senior citizen homestead relief[5]	1967	Varies with income from 75% to 10% of net property tax or equivalent rent not to exceed $600 (Max. credit $450)	Chap. 32 (H.B. 27) Article VI	Tax credit or refund to be claimed on income tax return. Department of Taxation shall make available a separate schedule for information necessary to administration of of this section and the schedule shall be attached and filed with the income tax return. Cash refund granted if property tax credit exceeds State personal income tax liability.
	Tax relief for renters.	1967	3.75% of the total amount paid by claimant as rent, not to exceed $45[6]	Chap. 32 (H.B. 27) Article XVII	Same as above.
Nebraska	For sales tax paid on food	1967	$7 per personal exemption (exclusive of age and blindness)	H.B. 377, laws 1967	Credit to be claimed on income tax returns. Refund will be allowed to the extent that credit exceeds income tax payable but no refund will be made for less than $2.
Vermont	For sales tax paid	1969	Varies, based on income and number of personal exemptions (other than age and blindness)[7]	H.B. 125, laws 1969; Chap. 152, Sec. 5829	Credit to be claimed on income tax returns. Credits properly claimed by resident individuals who have no income or no income subject to Vermont tax will be allowed the full amount of the credit as a refund.
	For senior citizen property tax relief	1969	Equal to the amount by which property taxes or rent constituting property taxes on their households exceeds 7% of the individuals total household income multiplied by the local rate factor[8]	H.B. 222, laws 1969; Chap. 139, Sec. 5901	The credit may not exceed the property tax, but if income tax liability is less than the credit the difference between the liability and the credit will be refunded.

See footnotes at the end of table.

TABLE 2-9.--STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES[1] (Cont'd)

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Wisconsin	For senior citizen homestead tax relief	1963	Varies, based on income and amount of property tax or rental payment	Chap. 71 (Sec. 7109 (7) added by ch. 566 (A.B. 301) eff. 6/10/64. Ch. 580 (A.B. 907) repealed & recreated Sec. 71.09(7) effective Dec. 19, 1964.	Tax credit or refunded to be claimed on income tax return. The Department of Taxation shall make available a separate schedule which shall call for the information necessary to administering this section and such schedule shall be attached to and filed with the Wisconsin income tax form. Cash refund granted if property tax credit exceeds State personal income tax due.
Washington, D.C.	For sales tax paid on food	1969	Varies, based on income[9] (credit applicable to low income taxpayers only)	P.L. 91-106 (H.R. 12982)	Tax credit or refund to be claimed on income tax return.

[1] If a taxpayer has no State personal income tax liability or a tax liability insufficient to absorb the entire credit (a negative tax credit situation) he is entitled to the appropriate cash refund. If the taxpayer's State personal liability is equal to or greater than the tax credit, his personal income tax liability is reduced by the amount of the credit (a positive tax credit situation).

[3] The credits for consumer-type taxes are based on "modified adjusted gross income" (regular taxable income plus exempt income such as social security benefits, life insurance proceeds, etc.) and range from $21 per qualified exemption for taxpayers having a modified adjusted gross income of less than $1,000 to $1 per exemption where such income is between $8,000 and $9,999.

[3] Ranges from $12 per qualified exemption for taxpayers having taxable income under $1,000 to $0 where such income is over $7,000.

[4] Credits are only allowed if total taxable income of taxpayer and spouse, if any, does not exceed $5,000 for the taxable year.

[5] All homeowners residing in their own homes are allowed a direct reduction of their property taxes due by means of the Homestead Property Tax Credit. This credit amounts to 35 percent of the tax levy, excluding the amount levied for bonded indebtedness, to a maximum credit of $250. Senior citizen homeowners also receive this credit. Local governments are reimbursed for their tax loss from the state property tax relief fund.

[6] Elderly may choose this relief or senior citizen relief but not both.

[7] Ranges from $12 to $81 for taxpayers having less than $1,000 total household income to $0 to $36 for those having between $6,000 and $6,999 income, based on number of personal exemptions.

[8] The commissioner shall annually prepare and make available the local rate factors by arraying all municipalities according to their effective tax rate and dividing the population of the State into quintiles from such array with those having the lowest effective tax rates being in the first quintile. The local rate factors shall be as follows: first quintile, 0.6; second quintile, 0.8; third quintile, 1.0; fourth quintile, 1.2; fifth quintile, 1.4. The amount of property taxes or rent constituting property taxes used in computing the credit are limited to $300 per taxable year.

[9] Low income taxpayers (AGI not over $6,000) are allowed a credit ranging from $2 to $6 per personal exemption, depending upon the taxpayer's income bracket.

Source: Commerce Clearing House, *State Tax Reporter.*

TABLE 2-9.--STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES
TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES (Continued)

State	Type of credit	Year Adopted	Amount of credit	Law	Administrative Procedure
Colorado	For senior citizen property tax relief (homeowners and renters)	1971	Varies with income up to $3700; limited to 50 percent of tax or $200	Chap. 138, ss. 1-20 and 21.	Credit claimed on income tax returns or, for those having no taxable income, on forms prescribed by the Department of Revenue
Maine	For senior citizen property tax relief (homeowners and renters)	1971	Varies with income up to $4000; limited to property tax paid or 20 percent of rent	Title 36. Chap. 901, ss. 6101-6120	Forms to be made available by the State Tax Assessor
Pennsylvania	For senior citizen homestead relief	1971	Varies with income up to $7500; limited to $200	No. 3, Acts of 1971	Rules to be prescribed and suitable forms to be provided by the Department of Revenue

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Fiscal imbalance

In a federal system functions are assigned to levels of government so as to balance the desire for popular control and participation with the internalization of cost and benefit spillovers and the realization of economies of scale. The present distribution of program responsibilities indicates that this balance has not been achieved in several important areas, especially education and welfare.

A primary criterion for a high quality state-local revenue system is that the area over which taxes are levied should approximate the area in which benefits are distributed. A government service should be paid for by residents of the region affected, not just by inhabitants of the town where it is located. In the case of education, much of its financing depends on units of government so small that the fruits of tax sacrifices spill over to other jurisdictions through the subsequent migration of children. Education also leads to social and technological improvements that increase productivity and well-being for everyone, not just those who receive it. Since the community does not receive all of the benefits of its educational spending, it will spend less for schooling than it would otherwise. The existence of out-migrants and

generalized benefits makes education seem more costly than it really is, thereby discouraging local outlays.

For purposes of income redistribution, taxes must be levied over the entire region in which redistribution is deemed necessary. Our education system is viewed as a device to provide equal social and economic opportunity to children irrespective of their background. To meet this responsibility all states do have a system of aid to local education, but these programs generally have a limited impact in redistributing educational resources. As a result, per pupil expenditures are still determined primarily by local property values.

The concept of equal educational opportunity is, of course, an imprecise one. At the very least we take it to mean that poor children should have no fewer resources devoted to their schooling than are provided to middle and upper income pupils. While the costs of improving student achievement may be high, there is substantial agreement that improving the quantity and quality of school inputs does yield learning gains.[1] A child's family background and peer group have a very large effect on his achievement in school. But many studies have shown that equalizing the distribution of resources devoted to the education of rich and poor will still significantly reduce the gap in educational achievement.[2] Inter-student disparities in performance not due to differences in ability can be completely eliminated only through disequalizing educational resources in favor of the underprivileged, or by working outside the educational system, or both.

To compensate for benefit spillovers, the states need only establish a program of aid to compensate localities for the differences between the perceived cost of education and its true cost. On the other hand, to assure equal educational opportunity for all children within a state, substantial taxes for schools must be levied statewide.

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[1] James W. Guthrie, "A Survey of School Effectiveness Studies," in Do Teachers Make a Difference?, Washington: U.S. Office of Education, 1970.

[2] E.g., Samuel Bowles, "Towards Equality?", in Equal Educational Opportunity, Cambridge: Harvard University Press, 1969.

The present system of financing many redistributive activities, including education, largely by local taxes conflicts with the nation's stated aim of halting and reversing urban decay and the flight to the suburbs. Much of this conflict would still exist even if other local taxes were to replace the property tax but part is attributable to the nature of the property tax itself.

An individual's local fiscal surplus--the value of local government services received minus local taxes paid--would naturally be expected to have an effect on his decision to locate in a given area. A recent paper by Bradford and Kelejian suggests that these effects can be quite substantial.[1] A fifty percent increase in grants in aid to cities used to reduce local taxes was found to increase the population of the typical city by 4.4 percent and increase the portion of area upper income persons living in the central city from 60 to 64 percent. A negative income tax program which decreased the number of poor in a metropolitan area by 25 percent would increase the city's population by 6.9 percent and increase the fraction of upper income persons living in the city from 60 to 67 percent. Since the costs of these two programs are different and unknown, we cannot tell which is more cost

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[1] David F. Bradford and Harry H. Kelejian, "An Econometric Model of the Flight to the Suburbs," Unpublished Princeton University Econometric Research Program memorandum, October, 1970.

effective, but both would have similar effects on the city.

The fiscal system has both direct and indirect influences on the location of upper income persons. The fewer the upper income residents of the city, the heavier the tax burden will be on all the remaining families. An increase in the percentage of city residents who are poor will also increase needed public expenditures for welfare, police, hospitals, and schools, and reduce the amenity value of the city to upper income groups. Thus attempts by a central city to redistribute income and opportunity via its own budget will turn out to be self-defeating. This will be true whether the property tax or some other revenue source is used.

The property tax itself, however, also poses particular problems for central cities because of its adverse effects on housing. If property tax differentials are borne by consumers, the price of urban housing will be relatively high, since city tax burdens are on average one-third higher than in the suburbs. Families will generally cut back on their use of housing space through living in lower quality dwellings and decreasing the number of rooms occupied per family. If property tax differentials are capitalized, higher property taxes will make the city a less attractive place for the investor to own residential property. The volume of new construction will fall off or housing will be allowed to deteriorate, once again causing people to curtail their use of dwelling space.

If property tax differentials are partly capitalized and partly passed on to consumers, the reduction in housing utilization will be brought about by a combination of pressures from the supply and demand sides.

For white, upper income persons the decline in the attractiveness of city housing will further encourage the move to the suburbs. For those who are kept from leaving the city by suburban discrimination or large-lot zoning, the result will be a further reduction in the quality of urban living.

Industrial location and tax competition

The effect that tax differentials have on residential housing will be duplicated to a lesser extent for other industries. Although our knowledge is incomplete, it appears that the supply of different types of labor and raw materials is much more significant for other industries than for housing. Also, property taxes, the major local tax, represent a much greater portion of capital income in housing than in any other industry. Despite the passage of time, John Due's ten-year-old conclusion has not been controverted--"Without doubt, in some instances, the tax element plays the deciding role in determining the optimum location, since other factors balance. This is most likely to be the case in the selection of the precise site in a metropolitan area. . . . But state and local taxes represent such a small percentage of total costs that the cases in which they are controlling

cannot be very significant."[1]

We can pick out, however, the other industries which are most heavily taxed under the property tax from the data in Table 2-5. Next to residential housing, those sectors which bear the greatest burden are, in descending order, transportation, utilities, agriculture, and services. The high taxes on urban transportation facilities are particularly important, since higher transportation prices encourage decentralization of industry and population. There are also great variations in taxation within these industries. Electric and gas utilities are taxed more heavily than petroleum companies, discouraging the use of gas and electricity for heating. Railroads pay substantially more property taxes than motor carriers, increasing the cost and reducing the attractiveness of rail transportation for both people and goods. One result of this has been the shift of urban rail passenger facilities to public ownership, where property taxes are not paid or some explicit subsidy is given.

While the existence of thousands of local governments and tax bases is a particular source of difficulties, this same situation is duplicated to a lesser extent with fifty separate states. As discussed above, there is no hard evidence that state taxes have a significant effect on industrial location, but state officials clearly believe this to be so.

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[1] John F. Due, "Studies of State-Local Tax Influences on the Location of Industry," National Tax Journal, 14: 163-173. (June, 1969), p. 171.

Governor Nelson A. Rockefeller recently told the New York State legislature:

> The vitality of the state's economic structure depends on the competitive position of New York State as a place to invest money, produce goods and services, and provide ever-expanding and improving job opportunities and the growth of our tax base necessary to support government services. It was clear that, under all of these circumstances, a major tax increase would erode the foundations of the state's economy. Therefore it was essential to hold down tax increases and to cut back on state spending, even though the latter was bound to have a serious effect on the level of state services.[1]

Of course, New York's position is unique in that it is a high tax area located between two non-income tax states, Connecticut and New Jersey. But each state similarly feels itself to be in a special position. The director of the Connecticut State Revenue Task Force, for instance, has emphasized the importance attached by many people to the recent growth in corporate headquarters in the area of the state closest to New York City. "As in most locational decisions," he writes, "the reasons for these moves are several, and it is difficult to say with certainty which was the crucial factor. It is easy to assume, therefore, that the absence of a personal income tax in Connecticut may have been the major inducement, and there is a natural fear of relinquishing this advantage."[2]

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[1] Governor Nelson A. Rockefeller, Special Message to the New York Legislature, April 22, 1971.

[2] Letter from Murray Drabkin, March 9, 1971.

The existence of interstate tax competition thus causes state governments to keep especially tight rein on their budgets. In the foregoing example, Connecticut, New Jersey, and New York could spend more, increase tax collections, and not affect their relative competitive position if some cooperative agreement were possible. Connecticut and New Jersey might agree to introduce a state income tax if New York promised to increase its existing levy. The understanding these states might reach need not take the form of establishing the same tax structure. For example, New York could agree to increase its income tax if Connecticut and New Jersey increased their sales taxes. If such cooperation is not feasible, a program of federal credits for state use of the income tax could also allow states to increase their spending without altering their attractiveness to individuals and industry.

Governmental fragmentation

The reliance on local taxes to finance redistributive expenditures also distorts the pattern of governmental organization in metropolitan areas. It fosters a large number of small local units and encourages them to exclude persons and industries which are deemed to represent a potential fiscal burden to the community. Once again, this is due to the maldistribution of governmental responsibilities, not to the property tax.

Under present arrangements in most states it is advantageous for persons of similar incomes to cluster in small, homogeneous communities. If everyone in the locality is approximately as well off, the scope for redistribution is minimal, and the tax burden on the individual will be relatively light. This pattern will be maintained by the willingness of upper income individuals to pay higher land and housing costs in order to live in a community with a higher quality of public services and fewer redistributive activities. Stratification of communities by wealth may occur as long as rich people prefer to spend a larger portion of their incomes on public goods, even if the benefits are generalized rather than accruing specifically to low income individuals.[1] But local attempts at redistribution will exacerbate the problem.

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[1]Bryan C. Ellickson, "Metropolitan Residential Location and the Local Public Sector," Unpublished Ph.D. dissertation, Massachusetts Institute of Technology, Department of Economics, June, 1970.

To the extent that the land and housing markets do not automatically result in complete stratification by income, communities may also make use of zoning ordinances to keep out land uses which are considered to incur more costs than the tax revenues they bring in. In particular, since schooling is the major item in local budgets, this fiscal zoning often takes the form of requiring large lots. If single-family homes must be located on plots of one, two, five, or even ten acres, city fathers expect that they will pay enough property taxes to meet the costs of educating the children likely to live therein. (This same situation would exist even if the local property tax were replaced by a local sales or income tax.) Similarly, since industry does not produce any direct burden on the schools, most localities consider it highly desirable. In a growing number of cases cities and towns even attempt to limit incoming firms to offices, laboratories, and so-called clean industry in a further effort to improve their fiscal picture. The evidence of this fiscal mercantilism continues to appear around the country.[1]

The rub, of course, is that people follow industry, and while one locality benefits itself by obtaining a new firm but excluding its employees, other communities will have to

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[1] George E. Seymour and M.D. Copely, "The Amount of School Property Tax Revenue Produced by Types of Residential Property," The Municipality [League of Wisconsin Municipalities], August, 1971; Peter Almond, "Industrial Park is a Tax Saver," Cleveland [Ohio] Press, September 1, 1971, p. G-1; Richard Reeves, "Land is Prize in Battle for Control of Suburbs," New York Times, August 17, 1971, pp. 1, 39.

educate the employees' children without sharing in the firm's tax payments. Workers are also hurt by being forced to live far from their job.

The situation has become particularly acute in the New York metropolitan area. On the New Jersey side of the Hudson over four-fifths of the vacant land in the suburban fringe (Monmouth, Morris, and Somerset Counties) is zoned for single family homes on plots of one acre or more. Less than one percent is zoned for apartment dwellings.[1] In the New York suburbs the minimum price of new homes ranges from $30,000 in Suffolk County to $50,000 in Westchester County.[2] As a result, blue-collar workers taking jobs in the suburbs cannot afford to live near their work and must face expensive, time-consuming travel each day from a home in the city to their place of employment.

Of course, the problem of fiscal zoning would not exist if governmental jurisdictions were larger, so that each land use decision would have a much smaller effect on tne total fiscal picture. But the pressures that lead to fiscal zoning also act to oppose governmental consolidation, whatever the canons of equity and efficiency would suggest.

Local governments cannot be expected to give up their autonomy voluntarily unless it is to their own benefit. Therefore, shifting the financing of education and other

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[1] Governor William T. Cahill, "A Blueprint for Housing in New Jersey," Special Message to the New Jersey Legislature, December 7, 1970.

[2] Linda Greenhouse, "Rise in Jobs Poses Problem in Suburbs," New York Times, August 18, 1971, pp. 1, 47.

redistributive activities to a higher level of government would seem to be a necessary condition for reducing governmental fragmentation.

Undoubtedly for some small units of government there are economies of scale to be reaped by providing services in greater quantity over a larger area. But the major argument for governmental consolidation is the need for balance between governmental powers and responsibilities. As the ACIR has continued to stress, local governments should have broad enough jurisdiction to cope adequately with the forces that create the problems which the citizens expect them to handle.[1]

The area-wide scope of many local problems--economic development, housing, recreation, waste disposal, transportation, law enforcement--needs no documentation here. The development of the needed area-wide solutions, however, is seriously impaired by the desire of localities to maintain their own separate tax base. If school financing were removed from the local property tax, and if local taxes financed primarily local services, governmental consolidation would become more a matter of efficiency than of distribution. Residents of upper income communities would then find that consolidation paid in terms of providing better local government.

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[1] ACIR. Fiscal Balance in the American Federal System. Washington: 1967. Vol. 2, p. 15.

Revenue inelasticity

Although state and local tax systems have been remarkably productive revenue raisers, this has been accomplished only through frequent increases in tax rates. From 1959 through 1970 state legislatures enacted a total of 36 major new taxes and increased rates of existing major taxes 410 times. Over the same period the federal government has been able to make several tax reductions.

Part of this difference is due to the more rapid growth in state and local spending. Over the past twelve years federal government expenditures have risen some 120 percent, while state-local expenditures from own sources have risen about 180 percent.

But State and local tax systems are also less able to take automatic advantage of the recent rapid growth in Gross National Product. The federal government relies for its revenue on elastic taxes, such as the personal income tax, whose collections rise at a faster rate than income. State and local taxes, on the other hand, are largely inelastic, with receipts rising less rapidly than income.

To be more precise, the elasticity of a tax is defined as the ratio of the percentage increase in tax collections at a constant tax rate to the percentage increase in Gross National Product (or some other measure of income). For example, if GNP rises by five percent and collections from some tax increases by seven percent, the elasticity of that tax will be seven divided by five, or 1.4.

A number of previous studies of state-local finances have provided elasticity estimates for the major state-local taxes. Some of these are shown in Table 2-10. The diversity of figures for each category arises for several reasons. First, the definition of a given type of tax is not uniform. In some states almost all income is taxable; in others, there are substantial exemptions, deductions, and exclusions. The general sales tax base sometimes includes food, clothing, and major services (see Table 3-3 and the accompanying discussion); elsewhere these items are not taxed. Second, the evidence suggests that the elasticity of a uniformly defined tax will vary from year to year and state to state. Third, even if the tax base and time period are clearly specified, economic data do not lend themselves to unambiguous interpretation. There are several ways of computing elasticities--employing tax collection data or relying on base data and rate schedules, constraining or not constraining certain coefficients, using one or more independent variables. A recent study concludes that even the most refined elasticity estimates are of minimal value for short-run revenue forecasting.[1] For all these reasons specific elasticity estimates should not be given much weight in the determination of tax policy.

Since there have been no recent comprehensive estimates of state-local tax elasticities, the ACIR staff has made such

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[1] Robert E. Berney, "Income Elasticities for Tax Revenues: Techniques of Estimation and Their Usefulness for Forecasting," Unpublished Washington State University working paper, presented at the conferences of the Western Economic Association, August 30, 1971.

TABLE 2-10.--ESTIMATED INCOME ELASTICITIES
OF MAJOR STATE-LOCAL TAXES
AT CONSTANT RATES

TAX	INVESTIGATOR	AREA	ELASTICITY
Personal income	Harris	Arkansas	2.4
	Harris	United States	1.8
	Groves and Kahn	United States	1.75
	Netzer	United States	1.7
	Planning Division	Arizona	1.30
	Harris	New Mexico	1.3
Corporate income	Peck	Indiana	1.44
	Harris	United States	1.16
	Netzer	United States	1.1
	Planning Division	Arizona	0.97
General property	Mushkin	Florida	1.6
	Mushkin	United States	1.3
	Netzer	United States	1.0
	Bridges	United States	0.98
	Planning Division	Arizona	0.85
	McLoone	United States	0.8
	Rafuse	United States	0.8
	Mushkin	North Dakota	0.3
General sales	Davies	Arkansas	1.27
	Rafuse	United States	1.27
	Peck	Indiana	1.04
	Netzer	United States	1.0
	Harris	United States	1.0
	Davies	United States	1.0
	Planning Division	Arizona	0.87
	Davies	Tennessee	0.80
Motor fuels	Peck	Indiana	0.77
	Planning Division	Arizona	0.74
	Harris	United States	0.6
	Rafuse	United States	0.43
Tobacco	Netzer	United States	0.8
	Harris	United States	0.4
	Planning Division	Arizona	0.25
Total state revenue (excluding property tax)	Legler and Shapiro	California	2.1
	Netzer	United States	1.2
	Legler and Shapiro	Iowa	0.4

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TABLE 2-11, Continued

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calculations for six states and selected subdivisions. For the major state taxes, the elasticities of tax collections at constant rates are expressed in relation to state personal income. For the property tax, the increases in state equalized valuations are compared to disposable personal income as estimated by Sales Management magazine. These property tax elasticity estimates should therefore be considered tentative until they can be recomputed using income data from the 1970 Census of Population. All estimates refer to the taxes as currently in effect in each state and are based on as many years of data as the requirement of consistency will allow.

In Hawaii all assessing of property is done by the state. The county is the unit of assessment in Kentucky, Maryland, and Oregon. And in New Jersey and New York valuation is a municipal responsibility. Kentucky and Oregon both do a creditable job of assessing at or near to full property value. Hawaii's assessments approximate the established goal of seventy percent of market value. And each New Jersey locality is mandated to adhere to the assessment ratio determined by the County Tax Board. All six states conduct periodic assessment ratio studies, used primarily to distribute school aid.

The ACIR elasticity estimates are shown in Tables 2-12 and 2-13. From these several conclusions may be drawn. First, the personal income tax is the most elastic tax source available to state governments. This is followed in order by the corporate income tax, the general sales tax, the property tax, and the

TABLE 2-12.--ESTIMATED ELASTICITIES OF MAJOR STATE TAXES

	Personal Income Tax	Corporate Income Tax	General Sales Tax	Motor Fuels Tax	Cigarette Tax
Hawaii	1.47	.98	1.29	.48	.30
Kentucky	1.94	1.19	.92	.75	.54
Maryland	1.49*	.58	1.08	.80	.00
New Jersey	- -	.72	1.17*	.74	.36
New York	1.80	1.13	.85*	.69	.12
Oregon	.95*	.93	- -	.70	.00

Source: ACIR calculations based on Census Bureau and New Jersey Division of Taxation data; annual data used except where quarterly data are indicated by asterisk.

TABLE 2-13.--ESTIMATED ELASTICITY
OF REAL PROPERTY TAX

STATE	JURISDICTION	ELASTICITY
Hawaii	Hawaii Co.	2.06
	Honolulu Co.	0.89
	Kauai Co.	1.08
	Maui Co.	1.55
Kentucky	Bell Co.	1.15
	Boone Co.	0.69
	Boyd Co.	0.87
	Bullitt Co.	1.60
	Calloway Co.	1.42
	Campbell Co.	0.24
	Daviess Co.	0.94
	Fayette Co.	0.66
	Hardin Co.	1.95
	Harlan Co.	- 0.73
	Hickman Co.	1.67
	Hopkins Co.	0.71
	Jefferson Co.	0.50
	Jessamine Co.	1.05
	Kenton Co.	0.76
	Laurel Co.	0.69
	McCracken Co.	0.74
	Madison Co.	1.07
	Muhlenberg Co.	0.66
	Pike Co.	1.82
	Pulaski Co.	1.35
	Robertson Co.	1.14
	Rockcastle Co.	0.74
	Rowan Co.	0.91
	Simpson Co.	1.31
	Union Co.	2.66
	Warren Co.	1.04
Maryland	Allegany Co.	1.00
	Anne Arundel Co.	0.90
	Baltimore City	1.25
	Baltimore Co.	0.45
	Calvert Co.	1.42
	Caroline Co.	1.27
	Carrol Co.	0.70
	Cecil Co.	1.40
	Charles Co.	2.11
	Dorchester Co.	0.93

TABLE 2-13, Continued

STATE	JURISDICTION	ELASTICITY
Maryland	Frederick Co.	1.23
	Garrett Co.	1.96
	Harford Co.	1.14
	Howard Co.	1.11
	Kent Co.	2.25
	Montgomery Co.	1.16
	Prince Georges Co.	1.61
	Queen Annes Co.	1.31
	St. Marys Co.	3.95
	Somerset Co.	2.22
	Talbot Co.	1.16
	Washington Co.	1.13
	Wicomico Co.	0.97
	Worcester Co.	1.91
New Jersey	Burlington City (Burlington Co.)	0.43
	Camden City (Camden Co.)	0.39
	Dover Town (Morris Co.)	0.69
	Freehold Boro (Monmouth Co.)	0.87
	Hamilton Twp. (Mercer Co.)	0.75
	Hunterdon Co.	0.90
	Irvington Town (Essex Co.)	0.47
	Jersey City (Hudson Co.)	0.88
	Lakewood Twp. (Ocean Co.)	0.75
	Lodi Boro (Bergen Co.)	1.40
	Millville City (Cumberland Co.)	0.47
	Morris Co.	0.85
	Newark City (Essex Co.)	0.38
	Ocean Co.	0.68
	Pleasantville City (Atlantic Co.)	0.71
	Red Bank Boro (Monmouth Co.)	0.55
	Salem Co.	1.17
	Somerset Co.	1.02
	Somerville Boro (Somerset Co.)	0.89
	Summit City (Union Co.)	0.46
	Sussex Co.	0.63
	Trenton City	- 0.27
	Warren Co.	1.36
	Wayne Twp. (Passaic Co.)	0.97
	Wildwood City (Cape May Co.)	2.03
	Woodbridge Twp. (Middlesex Co.)	0.66
	Woodbury City (Gloucester Co.)	0.29
New York	Albany City (Albany Co.)	0.34
	Allegany Co.	0.46
	Amsterdam City	- 9.21

TABLE 2-13, Continued

STATE	JURISDICTION	ELASTICITY
New York	Babylon Village (Suffolk Co.)	0.77
	Chenango Co.	0.18
	Corning City (Steuben Co.)	- 0.12
	Endicott Village (Broome Co.)	0.63
	Franklin Co.	0.94
	Hempstead Town (Nassau Co.)	1.04
	Lackawanna City (Erie Co.)	2.27
	Lewis Co.	0.52
	New Rochelle City (Westchester Co.)	0.51
	New York City	1.41
	Oneonta City (Otsego Co.)	0.52
	Patchogue Village (Suffolk Co.)	0.71
	Plattsburgh City (Clinton Co.)	0.81
	Putnam Co.	0.38
	Rockland Co.	0.79
	Scarsdale Town (Westchester Co.)	0.28
	Scoharie Co.	1.03
	Spring Valley Village (Rockland Co.)	0.80
	Suffolk Co.	0.55
	Watertown City (Jefferson Co.)	0.11
	Yonkers City (Westchester Co.)	0.70
Oregon	Baker Co.	0.09
	Benton Co.	0.84
	Clackamas Co.	0.91
	Clatsop Co.	2.64
	Columbia Co.	0.82
	Coos Co.	0.83
	Crook Co.	0.61
	Curry Co.	1.46
	Deschutes Co.	1.37
	Douglas Co.	1.01
	Gilliam Co.	- 2.93
	Grant Co.	0.30
	Harney Co.	0.54
	Hood River Co.	1.09
	Jackson Co.	1.00
	Jefferson Co.	1.19
	Josephine Co.	0.95
	Klamath Co.	0.73
	Lake Co.	0.48
	Lane Co.	0.95
	Lincoln Co.	1.76
	Linn Co.	0.75

TABLE 2-13, Continued

STATE	JURISDICTION	ELASTICITY
Oregon	Malheur Co.	1.00
	Marion Co.	0.94
	Morrow Co.	0.57
	Multnomah Co.	0.84
	Polk Co.	0.57
	Sherman Co.	0.00
	Tillamook Co.	1.83
	Umatilla Co.	0.23
	Union Co.	0.79
	Wallowa Co.	0.67
	Wasco Co.	0.77
	Washington Co.	0.89
	Wheeler Co.	1.08
	Yamhill Co.	1.29

Source: ACIR staff calculations based on data from the Office of Regional Economics, Sales Management, and state revenue departments and boards of equalization.

various selective excise taxes. Second, the elasticity of a given type of tax will vary with the definition of the tax base and from state to state. Third, the elasticity of the property tax varies widely from locality to locality and, to a lesser extent, among states. This variation cannot be described in general terms, since high and low elasticity jurisdictions are found both in urban, suburban, and rural areas. These sharp differences show that local elasticities can be strongly influenced by changing growth patterns and indicate the limited usefulness of elasticity estimates for small areas.

The increase in the market value of property, of course, does not represent an automatic addition to the tax rolls. While new construction is brought to the assessor's attention by building permits and is promptly taxed, greater diligence is required to keep up with the appreciation of land and existing structures. While comprehensive figures on the volume of new construction by area cannot be obtained, the available fragmentary data show surprising consistency.

In Hawaii new construction accounted for 43 percent of the increase in assessments between January 1, 1968, and July 1, 1971. The percentage for the individual islands ranged from 51 on Oahu to 23 on Hawaii.[1]

Between January 1, 1969, and January 1, 1970, the value of taxable real estate in Kentucky increased 6.9[illegible] percent. Of this, additions to the stock of taxable real property accounted for 2.8[illegible] percent, or two-fifths of the total.[2]

During the decade of the sixties, new construction in Washington added $6.0 billion to that state's property tax base. Thirty-five percent of the increase in taxable property values in the ten-year period is attributable to this cause.[3]

On the average, therefore, new construction appears to account for some forty percent of the possible additions to the property tax rolls. If existing buildings were not reassessed and new construction represented the only additions to the tax roll, the base elasticity of the property tax would be somewhere between 0.3 and 0.4, instead of 0.8 or 1.0. The higher elasticity can only be captured by prompt response of the assessor to changes in market values.

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[1] Letter from Mrs. Iola Rhyne, Tax Research and Planning Officer, Department of Taxation, State of Hawaii, July 29, 1971.

[2] Robert D. Rader, Kentucky Department of Revenue Memorandum, "Final Report on 1970 Ratio Study," May 14, 1971.

[3] Washington, Department of Revenue, Newsletter, May 3, 1971.

It should not be concluded from this discussion that a higher elasticity is always better than a lower one. Writers in the state-local finance area have frequently implied this to be the case, but seldom with any substantive analysis. The elasticity problem is frequently stated as a problem of an elasticity gap between revenues and expenditures. With revenue elasticity less than expenditure elasticity, frequent tax rate increases are required to maintain budgetary balance.

No feasible state-local revenue system, however, could avoid the necessity of continued tax rate increases if current expenditure trends continue. A state personal income tax with an elasticity of 1.75 and bringing in 25 percent of state-local revenues could bring the elasticity of the total system to about 1.15. This is, of course, a substantial increase over the current average of some 0.95. But it is still far too small to keep up with expenditure increases of 12 to 16 percent per year. Even if all revenues were collected from an income tax, rate increases would still be needed.

One problem with an elasticity much greater than one is that while tax receipts increase faster than income when the economy is growing, they also decline faster than income in a recession. At the federal level, where deficits are readily financed, the rapid decline in the tax take is an important automatic stabilizer for smoothing out cyclical fluctuations in the economy. Since the federal government has responsibility for stabilization policy, a high elasticity tax system seems

very appropriate at the federal level. But at the state and local levels, where balanced budgets are more or less obligatory, a high elasticity tax structure will impose a difficult hardship in a recession.

A tax elasticity less than one also presents problems. Since tax revenues will in this case grow more slowly than income, continual tax rate increases will be required just to maintain public expenditures at a constant fraction of total state or local income. While such frequent opportunities for decision by taxpayers might seem very democratic, proper planning and administration of the public sector argue strongly in favor of more stability and continuity than such a system would provide.

The optimal elasticity for a state-local revenue system would therefore appear to be in a range from 1.0 to 1.2. The lower bound of unity would keep state-local expenditures a constant fraction of income in the absence of explicit action by the electorate or their representatives. The upper bound is the approximate elasticity of the federal tax system and would maintain a balance in the spending potentials of the two levels of government. Use of a personal income tax to raise a quarter of state-local revenues would yield a total system elasticity within these limits.

Property tax administration

To be fair and to keep pace with growing property values, the property tax necessitates a degree of administrative involvement and financial support greater than states and localities have been willing to commit. Valuation has become a highly technical undertaking. Yet the administration of the property tax in many jurisdictions is entrusted to individuals whose principal qualification is being able to win an election rather than knowing the techniques of the appraisal profession--income capitalization, sales comparison, or cost approach to value.

The division of the property tax base into thousands of pieces under the present system of local or county assessment accentuates the administrative difficulties of the property tax. Some property is not easily confined within the arbitrary boundaries of political subdivisions. Values determined for property in one jurisdiction may bear little or no relation to assessment of similar property by a neighboring locality.

The difficulty of administering the property tax accounts for the trend toward eliminating personal property taxes on all but business personalty, where a market transaction can be used as a yardstick. There is also a growing tendency for some or all business property to be assessed by the state rather than by local governments. Finally, many states are requiring state certification of local assessors and are also providing them with classroom training, tax mapping, and other technical assistance.

While there is still a great deal of room for improvement, these changes have already had a healthy impact. Over the course of three surveys, from 1956 to 1966, most assessing areas showed increased uniformity in their assessment of nonfarm houses, according to the Census of Governments. However, the Census data showed a marked divergence in the assessment levels among various kinds of realty in most parts of the country. Thus, there is still a long way to go in making the property tax a better instrument for governmental financing.

Closing the gap between assessment law and practice ranks with uniformity of assessment as a major challenge of property tax administration. Nationwide the average overall level of realty assessment rose only from 29 percent in 1961 to about 31 percent in 1966. All the statistical evidence and actual experience points to the conclusion that the higher the official valuation the greater the assessment uniformity. Only a few States have experienced sharp jumps in assessment levels according to the Census reports. Most of these were mandated by courts. Where a major upward shift occurred as in Florida, Georgia, Kentucky, New Jersey and North Carolina there was a marked improvement in the uniformity of assessment for one-family houses. (See Table 2-14.)

Some states have left themselves little prospect of either closing the gap between assessment law and practice or achieving greater assessment uniformity because they have failed to provide themselves with the basic data obtainable through a real estate transfer tax. In 1965, when Congress repealed the federal documentary tax, it did so prospectively so as to allow states and localities to enter the field without loss in the continuity of information that flowed as a by-product of the tax. Many states took advantage of the opportunity, but thirteen did not--

Alaska	Missouri	Oregon
Idaho	Montana	Texas
Kansas	New Mexico	Utah
Louisiana	North Dakota	Wyoming
Mississippi		

Of these, only Alaska and Oregon had a median area dispersion index for nonfarm housing assessments that compared favorably with the national average.

TABLE 2-14.--MEASURES OF ASSESSMENT QUALITY,
SELECTED STATES, 1961 and 1966

State	Statewide Average Assessment Ratio For Nonfarm Houses		Coefficient of Intra-Area Dispersion For Nonfarm House Assessments, Median Area of Those Surveyed *	
	1961	1966	1961	1966
Florida	47.4	78.3	22.3	14.2
Georgia	25.2	39.7	30.5	16.9
Kentucky	29.0	91.4	27.3	15.8
New Jersey	27.0	66.1	31.8	18.1
North Carolina	35.7	53.1	24.9	17.7

*Coefficient of despersion is a measure, in percentage terms of the average departure of individual assessments from the median level of valuation for the kind of property in a particular assessing area.

Source: Bureau of the Census, Census of Governments: 1962, Vol. II, Taxable Property Values; and 1967 Census of Governments, Vol. 2, Taxable Property Values.

SUMMARY

State and local government revenues from own sources exceed $110 billion. This equals eleven percent of Gross National Product and is more than 160 percent greater than state-local receipts a decade ago. States and localities make use of a variety of personal taxes--primarily the property tax, general and selective sales taxes, and the individual income tax--as well as several levies on business.

Four aspects of the state-local revenue system impair its productivity and equity:

1. the regressive impact of property, general sales, and selective excise taxes,

2. the imbalance between fiscal resources and certain functional responsibilities of government,

3. the sluggish response of state and local revenues to economic growth, and

4. the difficulties in assuring equitable administration of the property tax.

Possible solutions to these problems will be discussed in the following chapter.

CHAPTER 3

ACHIEVING A HEAVY-DUTY STATE-LOCAL REVENUE SYSTEM

Minimizing use of local taxes for schools

Because the support of elementary and secondary education comprises the single largest segment of the combined state and local governmental budget, the financing of education shapes the entire state-local fiscal picture. In Chapter 2 we attributed part of the weakness in existing state-local revenue systems to the lack of balance between fiscal and functional responsibilities at the local level.[1]

Local revenue sources are best suited to finance functions whose benefits accrue mainly to those who are located in the area where the revenues are raised. The local tax base is not appropriate for financing a major governmental responsibility of widespread public benefit, such as elementary and secondary education. A local tax is also incapable of equalizing educational opportunity for children in rich and poor localities. It is therefore fundamental to the achievement of a heavy-duty state-local revenue system that the states minimize the dependence of the public schools on the local property tax or other local taxes.

Our recommendation does not imply that the states should finance schools at the current average expenditure level. The appropriate level of funding might be greater or less than it is at present, but that is an issue separate from the one considered here.

Increased state responsibility for school support

In the United States as a whole in the 1969 fiscal year, local revenue sources contributed 50.5 percent of total public spending

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[1] See pp. 2-25 to 2-26.

for education other than higher education.[1/] State sources contributed 40.9 percent, and Federal aid contributed the remaining 8.6 percent. There is considerable variation among States, however, in the division of financial responsibility between State and local governments, as can be seen in Table 3-1. State support of schools ranged from 84.1 percent of school spending in Hawaii to 9.6 percent in New Hampshire.

State and local taxes and Federal aid are not the only sources of school financing. A portion of local revenues and a much smaller portion of State revenues for schools come from service charges for school lunches, tuition, and other items. Deduction of local charges from the amount of school expenditures financed locally provides some indication of the amount of school financing provided by the local property tax. Table 3-1 reveals that for the nation as a whole, property taxes financed less than half (45.4 percent) of total school spending in 1969. In Alabama, Delaware, Florida, Hawaii, Mississippi, New Mexico, and North Carolina, the local property tax provided less than 20 percent of school expenditures. But in Nebraska, New Hampshire, New Jersey, Oregon, and South Dakota, more than 65 percent of school spending was financed by local taxation. Local taxes funded more than 50 percent of school spending in 21 States in fiscal 1969.

Local tax sources provided approximately $16.2 billion for school support in 1969. The State-by-State estimate of the amount of local tax support for schools is shown in Table 3-2. This is the amount which must be replaced by revenues from some other source if the dependence of public schools on local taxes is to be minimized.

[1/] Included in these expenditures are $1.9 billion for State supervision of schools and colleges, State tuition grants, fellowships, aid to private schools, and educational programs for the handicapped, adults, veterans, and other special classes.

The revenue from local charges for schools was $1.8 billion in 1969, as shown in Table 3-2. These charges are the amounts received for school lunches, tuition, books, tickets to athletic events, and other commodities and services benefiting the person charged -- the revenue of the enterprise or business-type activities of school systems. Ideally they should exactly balance the costs of such activities. In the interests of decentralization, it would seem desirable to keep such activities and their financing at the local level. Some of these charges, however, such as tuition and book fees, would not seem to be consistent with the provision of a free public education for all children. It might therefore be desirable to replace these charges with additional tax revenue.

In this case the amount of local revenue to be replaced would be slightly more than the $16.2 billion of local tax revenues for schools in 1969.

One method of phasing out the use of local taxes for schools is for States to assume greater financial responsibilities for school support. Indeed, the shift of financial responsibility for schools away from the local property tax to State revenue sources presents a unique strategic opportunity. State takeover of school finances implies emphasis on State imposed and administered taxes. The shift to broadly-based State levies has the potential to:

(1) improve the distribution of the benefits and burdens of supporting both schools and other domestic governmental services;

(2) reduce the debilitating effects on local government of tax and expenditure competition for people and industry based on the provision and support of local schools through the local property tax;

(3) dampen the role of the fiscal system in determining the organization of local government into rich and poor communities including residential and industrial tax havens.

TABLE 3-1

PERCENTAGE DISTRIBUTION OF EDUCATIONAL EXPENDITURES (OTHER THAN HIGHER EDUCATION) BY GOVERNMENTAL SOURCE AND TYPE OF FINANCING, FISCAL YEAR 1969

States	Total expenditure	State school expenditure from own funds		Local school expenditure from own funds				Federal aid for schools
		Total[1]	Taxes and borrowing	Total	Taxes and borrowing	Charges		
						School lunch sales	All other	
UNITED STATES, TOTAL	100.0	40.9	40.8	50.6	45.4	3.6	1.5	8.6
ALABAMA	100.0	53.3	52.3	28.7	15.6	6.7	6.5	18.0
ALASKA	100.0	41.6	41.6	28.8	26.0	2.1	0.7	29.7
ARIZONA	100.0	52.6	52.5	36.1	30.5	3.8	1.8	11.3
ARKANSAS	100.0	43.9	43.9	36.8	28.3	5.5	3.0	19.3
CALIFORNIA	100.0	36.5	36.5	55.3	51.2	3.3	0.8	8.2
COLORADO	100.0	26.9	26.9	63.9	58.3	3.8	1.8	9.2
CONNECTICUT	100.0	31.0	31.0	63.9	60.6	2.5	0.8	5.2
DELAWARE	100.0	70.4	70.3	22.4	18.3	3.6	0.6	7.1
DIST. OF COLUMBIA	100.0	–	–	93.4	90.6	2.2	0.5	6.6
FLORIDA	100.0	63.2	63.2	27.2	18.6	5.1	3.5	9.7
GEORGIA	100.0	51.5	51.4	35.1	27.3	5.6	2.2	13.5
HAWAII	100.0	84.1	78.6	–	–	–	–	16.4
IDAHO	100.0	37.8	37.6	51.6	46.0	4.3	1.4	10.6
ILLINOIS	100.0	28.4	28.4	65.6	60.3	3.2	2.1	5.9
INDIANA	100.0	35.6	35.5	59.5	52.3	4.7	2.5	5.0
IOWA	100.0	41.6	41.6	51.1	44.2	4.1	2.9	7.3
KANSAS	100.0	31.4	31.3	60.2	52.5	4.7	3.0	8.4
KENTUCKY	100.0	48.6	48.0	34.8	27.0	5.2	2.6	16.6
LOUISIANA	100.0	52.4	52.4	33.4	28.9	3.9	0.6	14.2
MAINE	100.0	33.9	33.3	56.5	53.6	2.0	0.8	9.6
MARYLAND	100.0	30.8	30.7	62.3	57.9	3.6	0.8	7.0
MASSACHUSETTS	100.0	24.4	24.1	68.4	64.6	2.9	0.9	7.2
MICHIGAN	100.0	43.0	43.0	51.3	46.9	2.6	1.8	5.6
MINNESOTA	100.0	34.0	34.0	59.0	54.8	3.1	1.1	7.1
MISSISSIPPI	100.0	57.1	57.1	21.0	13.2	6.2	1.7	21.8
MISSOURI	100.0	33.4	33.4	58.0	50.2	4.8	3.0	8.6
MONTANA	100.0	31.7	31.6	58.0	54.4	2.5	1.1	10.3
NEBRASKA	100.0	17.4	17.1	74.2	66.4	4.7	3.1	8.5
NEVADA	100.0	50.3	50.1	41.7	38.1	2.9	0.7	8.0
NEW HAMPSHIRE	100.0	9.6	9.6	80.7	76.1	3.2	1.3	9.6
NEW JERSEY	100.0	24.3	24.3	69.5	66.1	2.3	1.1	6.1
NEW MEXICO	100.0	63.3	63.1	19.6	13.5	3.8	2.3	17.1
NEW YORK	100.0	54.6	54.4	40.2	38.1	1.7	0.3	5.2
NORTH CAROLINA	100.0	64.6	64.1	20.5	10.8	7.2	2.5	14.9
NORTH DAKOTA	100.0	30.4	30.2	57.4	51.2	3.6	2.6	12.3
OHIO	100.0	25.4	25.4	68.0	62.5	4.6	1.0	6.5
OKLAHOMA	100.0	37.1	37.1	45.4	37.9	4.8	2.7	17.5
OREGON	100.0	21.9	21.8	71.6	67.4	3.3	0.9	6.6
PENNSYLVANIA	100.0	46.6	46.6	46.3	41.3	3.4	1.6	7.0
RHODE ISLAND	100.0	46.2	44.4	45.2	43.5	0.8	0.9	8.6
SOUTH CAROLINA	100.0	52.6	52.3	30.8	23.9	5.4	1.4	16.6
SOUTH DAKOTA	100.0	11.8	11.8	77.4	70.7	3.7	3.0	10.8
TENNESSEE	100.0	41.9	41.8	44.6	37.9	6.1	0.7	13.5
TEXAS	100.0	39.7	39.6	49.0	41.2	5.5	2.3	11.3
UTAH	100.0	48.6	48.5	43.6	38.9	3.9	0.8	7.7
VERMONT	100.0	45.2	45.2	46.6	44.5	1.3	0.8	8.0
VIRGINIA	100.0	44.6	44.1	42.1	37.2	3.4	1.5	13.4
WASHINGTON	100.0	51.0	51.0	42.3	38.3	3.0	0.9	6.7
WEST VIRGINIA	100.0	48.5	48.5	34.6	29.3	3.5	1.9	16.8
WISCONSIN	100.0	26.6	26.5	67.0	63.3	2.5	1.1	6.4
WYOMING	100.0	35.7	35.7	55.8	50.6	3.2	2.1	8.4

Note: Detail will not necessarily add to total due to rounding.

[1] Includes $50 million from charges, which provide less than 1% of State school expenditure except in the States of Alabama (1%); Hawaii (5.5%); and Rhode Island (1.8%).

SOURCE: ACIR staff computations based on U.S. Census data.

TABLE 3-2.--EDUCATIONAL EXPENDITURES (OTHER THAN HIGHER EDUCATION) BY GOVERNMENTAL SOURCE AND TYPE OF FINANCING, FISCAL YEAR 1969
(In Millions of Dollars)

States	Total school expenditures	Federal aid for schools	State school expenditures from own sources			Local school expenditures from own sources				
			Total	Taxes and borrowing	Charges	Total	Taxes and borrowing	Charges		
								Total	School lunch sales	Other
UNITED STATES, TOTAL	35,686.9	3,083.2	14,599.6	14,549.5	50.0	18,044.1	16,215.1	1,829.0	1,284.0	545.0
ALABAMA	449.8	80.9	239.6	235.4	4.2	129.3	70.0	59.3	30.2	29.1
ALASKA	75.7	22.5	31.5	31.5	*	21.8	19.7	2.1	1.6	0.5
ARIZONA	330.2	37.4	173.7	173.5	0.2	119.1	100.8	18.3	12.5	5.8
ARKANSAS	239.4	46.2	105.2	105.0	0.2	88.1	67.8	20.3	13.1	7.2
CALIFORNIA	3,968.6	325.2	1,448.8	1,446.8	2.0	2,194.6	2,033.0	161.6	129.0	32.6
COLORADO	381.1	34.9	102.7	102.7	*	243.6	222.3	21.3	14.5	6.8
CONNECTICUT	548.9	28.3	170.0	170.0	*	350.6	332.7	17.9	13.7	4.2
DELAWARE	123.5	8.8	87.0	86.8	0.2	27.7	22.6	5.1	4.4	.7
DIST. OF COLUMBIA	156.1	10.3	–	–	–	145.8	141.5	4.3	3.5	.8
FLORIDA	1,060.1	102.5	669.8	669.8	0.3	287.9	197.3	90.6	53.8	36.8
GEORGIA	699.5	94.1	360.1	359.3	0.8	245.2	190.7	54.5	39.1	15.4
HAWAII	136.8	22.4	115.0	107.5	7.5	(-0.5)	(-0.5)			
IDAHO	102.7	10.9	38.8	38.6	0.2	53.0	47.2	5.8	4.4	1.4
ILLINOIS	1,839.0	109.4	522.8	522.7	0.1	1,206.9	1,108.4	98.5	59.4	39.1
INDIANA	867.1	43.1	308.3	308.0	0.3	515.6	453.5	62.1	40.4	21.7
IOWA	557.8	40.5	232.1	232.1	*	285.3	246.7	38.6	22.6	16.0
KANSAS	373.3	31.2	117.1	117.0	0.1	224.9	195.9	29.0	17.7	11.3
KENTUCKY	441.9	73.4	214.6	211.9	2.7	153.9	119.4	34.5	22.8	11.7
LOUISIANA	555.8	79.0	291.0	291.0	*	185.8	160.8	25.0	21.7	3.3
MAINE	142.2	13.7	48.2	47.3	0.9	80.3	76.2	4.1	2.9	1.2
MARYLAND	782.0	54.5	240.5	240.3	0.2	486.9	452.8	34.1	27.8	6.3
MASSACHUSETTS	871.9	62.7	212.6	209.9	2.7	596.6	563.3	33.3	25.2	8.1
MICHIGAN	1,829.2	103.2	787.2	787.0	0.2	938.8	858.2	80.6	47.1	33.5
MINNESOTA	799.3	56.4	271.6	271.4	0.2	471.4	438.0	33.4	24.6	8.8
MISSISSIPPI	285.9	62.4	163.3	163.2	0.1	60.1	37.6	22.5	17.7	4.8
MISSOURI	725.4	62.5	242.0	242.0	-0-	420.9	364.0	56.9	34.8	22.1
MONTANA	118.7	12.2	37.6	37.5	0.1	68.9	64.6	4.3	3.0	1.3
NEBRASKA	260.2	22.0	45.2	44.4	0.8	193.1	172.8	20.3	12.2	8.1
NEVADA	88.5	7.1	44.5	44.3	0.2	36.9	33.7	3.2	2.6	.6
NEW HAMPSHIRE	98.5	9.5	9.5	9.5	-0-	79.5	75.0	4.5	3.2	1.3
NEW JERSEY	1,305.7	79.9	317.8	317.6	0.2	908.0	862.9	45.1	30.1	15.0
NEW MEXICO	198.6	33.9	125.7	125.4	0.3	38.9	26.8	12.1	7.5	4.6
NEW YORK	4,285.6	221.6	2,341.9	2,330.6	11.3	1,721.9	1,633.9	88.0	74.6	13.4
NORTH CAROLINA	667.1	99.4	431.1	427.9	3.2	136.5	71.9	64.6	48.2	16.4
NORTH DAKOTA	109.6	13.5	33.3	33.1	0.2	62.9	56.1	6.8	3.9	2.9
OHIO	1,605.2	105.0	407.8	407.4	0.4	1,092.2	1,002.7	89.5	74.1	15.4
OKLAHOMA	351.8	61.5	130.6	130.5	0.1	159.7	133.2	26.5	17.0	9.5
OREGON	416.3	27.3	91.2	90.9	0.3	298.0	280.7	17.3	13.7	3.6
PENNSYLVANIA	2,180.7	153.6	1,017.2	1,016.9	0.3	1,009.8	900.1	109.7	74.5	35.2
RHODE ISLAND	146.5	12.6	67.7	65.0	2.7	66.2	63.7	2.5	1.2	1.3
SOUTH CAROLINA	375.8	62.4	197.7	196.7	1.0	115.6	89.9	25.7	20.3	5.4
SOUTH DAKOTA	130.1	14.1	15.4	15.3	0.1	100.7	92.0	8.7	4.8	3.9
TENNESSEE	499.1	67.3	209.3	208.5	0.8	222.5	189.0	33.5	30.2	3.3
TEXAS	1,6[illegible]4.3	189.2	664.3	663.1	1.2	820.8	690.3	130.5	91.5	39.0
UTAH	211.9	16.4	103.0	102.7	0.3	92.4	82.5	9.9	8.2	1.7
VERMONT	71.4	5.7	32.3	32.3	*	33.3	31.8	1.5	0.9	.6
VIRGINIA	741.3	99.1	330.4	327.2	3.2	311.8	275.5	36.3	25.1	11.2
WASHINGTON	700.8	47.3	357.2	357.2	*	296.3	268.5	27.8	21.3	6.5
WEST VIRGINIA	248.9	41.9	120.8	120.7	0.1	86.2	72.9	13.3	8.7	4.6
WISCONSIN	785.3	50.6	208.8	208.4	0.4	525.9	497.0	28.9	19.9	9.0
WYOMING	71.8	6.0	25.6	25.6	-0-	40.1	36.3	3.8	2.3	1.5

*Less than $50,000

[1] Figures do not add to total due to rounding.

SOURCE: ACIR staff computations based on U.S. Census data.

Moreover, the State has better revenue sources available to it than do local general governments and local school districts. State sales and income taxes are more responsive to changes in the economy than the property tax, which is the major source of local revenue authorized for the use of local governments by the State government.

Furthermore, the State has distinct tax administrative advantages compared to local governments. A State encompasses population and economic activity within an area large enough to obtain economies of scale in tax administration. Locally imposed taxes, particularly in urban areas where many independent units of government may exist side-by-side and may overlay one another, entail high administrative costs.

Diversity, Broad Base, and Elasticity in State Taxes

At least three practical considerations are gaining dominance in shaping State tax policy--use of a diversity of tax sources, increased emphasis on broadening the tax base, and increased reliance on economically responsive revenue measures.

Throughout the history of governmental finance some public finance theorists and private citizens have championed one form of tax or another as the most equitable way to distribute the cost of governmental services. But those who take the "single tax" approach have never mustered sufficient support to accomplish their goal. Thus, at the present time, 36 States levy both broad-based sales and personal income taxes as the foundation of their tax system.

Tax policymakers opt for a diversity of revenue sources on very practical grounds. State legislators, by and large, have come to agree that the task of income redistribution by means of steeply progressive taxes can be most effectively pursued by the government with the broadest jurisdictional reach--the National Government. Those concerned with providing satisfactory levels of education, health, and welfare benefits to the poor have realized that the lack of these services may be more regressive than financing such services with a proportional or even somewhat regressive tax structure. Moreover, States have shown a genius for developing practical measures such as the outright exemption of food, or the provision of special income tax credits or cash rebates to minimize the regressivity of the retail sales tax.

The realities of interstate tax competition have also tended to encourage the diversification of the tax structure. The mobility of persons and capital and the widespread interest in maintaining a favorable tax climate for business have tarnished the luster of progressive income tax proposals. States have moderated tax rates and searched out other sources of tax revenue in order to remain competitive with their neighbors.

Furthermore, a diversity of taxes permits keeping rates at a moderate level. Low or moderate rates cause less distortion in private sector decisions and therefore less reduction in economic efficiency. Moderate rates also generate less incentive to avoid or evade tax payment.

Regardless of the tax mix chosen, broadening the base of the taxes used may do much to increase the equity, economic efficiency, and ease of administration of the tax structure. Broadening the base tends to promote horizontal equity, the equal treatment of equals. By extending the tax to as many items as possible, it also tends to reduce the distortion of individual decision-making induced by all taxes. In many cases, expanding the base of the tax also eliminates the need for fine distinctions between taxable and non-taxable items, thereby reducing compliance costs and costs of administration.

On the whole, most State income taxes are fairly broad-based. There are considerable variations among States, of course, and there are several categories of money income and imputed income which escape taxation in all States. But in most cases it would be extremely difficult to expand the base of the income tax.

As with other taxes, the general retail sales tax is not defined uniformly from State to State. All States with this tax impose it on most sales of retail stores, but here the similarity ends. Some States tax certain consumer services--admissions, restaurant meals, lodging, telephone and telegraph, gas and electricity, water, trans-

portation, rentals, and repairs. Some States tax industrial equipment, while others exempt it if it is directly used in the production of manufactured goods. Some States exempt food and clothing, while others tax one or both.

The broadness of the sales tax base has an important effect on the amount of revenue the tax produces. Table 3-3 shows the ratio of actual sales tax base to a national average tax base in each of the sales tax States for 1967. Ignoring the States with a multi-stage tax, the most comprehensive sales tax base was two or three times as large as the least inclusive. A State burdened with a narrow base must impose a very high rate if it wishes to rely very heavily on the general sales tax. Indeed, for the States with a very narrow base, broadening the base represents an untapped source of considerable additional revenues. New Jersey, for example, could have doubled its sales tax revenue without any increase in tax rate by extending its tax base to cover the same items as were taxable in Michigan.

The number of items covered by the sales tax also has a substantial impact on how the burden of the tax is distributed. Since low income people spend a greater fraction of their income than do high income persons, a tax on all consumer purchases would be regressive. Excluding services from the tax base makes the sales tax even more regressive, since purchases of services become increasingly more important as one moves up the income scale. Exemption of food makes the sales tax nearly proportional, although only at the loss of substantial revenue. The sales tax credit accomplishes the same end

at much lower cost by returning a fixed sum to each person, regardless of income.

A third important consideration relating to state tax policy is the elasticity of the tax structure. The need for a state tax structure with an elasticity in the range of 1.0 to 1.2 has already been discussed extensively in Chapter 2.[1] Since the personal income tax is a high elasticity tax, increased use of this tax source will increase the overall tax system elasticity, which means bringing it closer to the acceptable range.

A strong personal income tax in a balanced system

In designing a state tax system sufficient to finance the major portion of school costs, careful consideration must be given to providing a diversity of tax sources, utilizing broad-based taxes, and increasing the elasticity of the current inelastic state-local tax structure. The overriding fiscal need of state and local governments is a tax system with a strong revenue growth potential that stems from use of both broad-based personal income and general sales taxes. In order to displace the local property tax as the major source of school funds and to equip the states with a high-quality revenue system, the states should initiate or intensity their use of the personal income tax. States which make heavy use of the income tax have found it superior to other revenue sources in terms of productivity, elasticity, equity, and ease of administration. While three of these criteria are reasonably objective, the question of equity is very much a subjective matter. The arguments in this chapter are based on a view that income is the most appropriate measure of the ability to pay taxes, and that a moderate degree of progressivity in the tax structure is further desirable.

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[1] See pp. 2-50 to 2-51.

TABLE 3-3 -- RELATIVE BASES AND RATES OF STATE GENERAL SALES TAXES

	Ratio of Actual Base to Standard Base FY 1967	Exhibit: Nominal Rate (Percent) as of Jan. 1, 1967	Exhibit: Nominal Rate (Percent) as of Jan. 1, 1971
Hawaii	2.64 *#+@	4.0	4.0
New Mexico	1.90 *#+@	3.0	4.0
Louisiana	1.74 +@	2.0	3.0
Mississippi	1.74 *#+@	3.5	5.0
Washington	1.70 +@	4.2	4.5
Arizona	1.57 *#+@	3.0	3.0
Georgia	1.54 #@	3.0	3.0
Utah	1.54 #+@	3.0	4.0
South Carolina	1.44 @	3.0	4.0
Iowa	1.40 #+@	2.0	3.0
Michigan	1.40 @	4.0	4.0
Tennessee	1.40 +@	3.0	3.0
Wyoming	1.40 #+@	2.5	3.0
Arkansas	1.34 #+@	3.0	3.0
Kansas	1.34 #+@	3.0	3.0
Kentucky	1.30 #@	3.0	5.0
Missouri	1.30 #+@	3.0	3.0
Alabama	1.24 +@	4.0	4.0
California	1.29 +	3.0	4.0
Illinois	1.20 +@	3.5	4.0
Indiana	1.20 @	2.0	2.0
New York	1.20	2.0	3.0
North Carolina	1.20 +@	3.0	3.0
Oklahoma	1.20 @	2.0	2.0
Maine	1.17 +	4.0	5.0
South Dakota	1.14 #+@	3.0	4.0
Colorado	1.10 +@	3.0	3.0
Florida	1.10 +	3.0	4.0
Idaho	1.10 @	3.0	3.0
Rhode Island	1.07 +	4.0	5.0
West Virginia	1.07 @	3.0	3.0
Connecticut	1.00	3.5	5.0
Nevada	1.00 +@	2.0	3.0
Virginia	.97 @	2.0	3.0
Maryland	.94	3.0	4.0
Texas	.90 +	2.0	3.25
Ohio	.87	3.0	4.0
Pennsylvania	.87	5.0	6.0
New Jersey	.70	3.0	5.0
Wisconsin	.60 +	3.0	4.0
Massachusetts	.57	3.0	3.0

* Multi-stage or gross income tax
\# Six out of seven major services taxed as of January 1, 1967
\+ Manufacturing equipment taxed at full rate
@ Food taxed

Source: ACIR staff calculations based on Census Bureau and Commerce Clearing House data

Business Taxation

To some, business firms offer a highly visible, impersonal means for raising revenues. Businessmen, naturally, feel that higher taxes threaten their competitive position and their ability to continue profitable operations in their present locations. In general, it seems fair to say that there is no consensus on the types, variety or amounts that business firms should pay to State and local governments. Public officials therefore have no hard-based economic rationale to rely on in setting their policies--they must take a pragmatic view and attempt to strike a balance that assures that business pays its "fair share" of taxes but that this share does not force business firms to alter their location decisions.

The current extent of State and local business taxation was discussed above in Chapter 2.[1/] If the use of local taxes for the support of schools is minimized, businesses would be relieved of much of their property tax burden. Legislators would then be required to make a pragmatic decision on the extent to which corporate income tax and other statewide business taxes ought to be expanded to replace this burden.

1/ See p. 2-8.

A new form of business taxation, the value added tax, has recently been suggested as a potential source of state revenues. The base for this tax is a firm's value added, the difference between the cost of goods or services sold by the firm and the cost of its material inputs, including the cost of capital. Value added can also be arrived at by adding all the incomes generated by the firm's production--wages and salaries, interest, rent, and profits.

Depending on the nature of the depreciation allowance, the value added tax can be shown to correspond to familiar existing taxes. If machines are depreciated over their economic lifetime, the base of the value added tax will be equal to national income; this is known as the income value added tax and is equivalent to a proportional income tax. Under the consumption value added tax, firm purchases of new capital equipment but not depreciation are deductible from sales; the base of the CVA is total consumer expenditure, and the tax is equivalent to a consumption tax. In the gross product version of the tax, neither depreciation nor purchases on capital account are deductible; the base of this tax is total gross national product, and the tax is equivalent to a sales tax on all final output.[1]

The foregoing correspondence relations apply fully only to a competitive, self-sufficient economy. For the United States as a whole, they are nearly true. But they must be modified to apply to a small economy, such as that of an individual state, which has extensive commerce beyond its borders.

In particular, a state value added tax of the income type would be equivalent to a proportional tax on all incomes generated in the state, whether accruing to residents or outsiders. By contrast, a state personal income tax is levied against income

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[1] William Oakland, "The Theory of the Value Added Tax," National Tax Journal, June and September, 1967.

earned by residents of the state and wage income of non-residents. And a state corporate income tax falls initially on profit income generated within the state. None of these statements, of course, implies that these taxes are borne in the final analysis by those who bear their initial impact.

A value added tax was actually in effect in Michigan, under the name of the Business Activities Tax, from 1953 through 1967. Initially the Michigan tax was based on something akin to gross product, with deductions allowed for explicit capital rental costs. A 1955 amendment allowed depreciation charges to be subtracted from the tax base, changing the levy into one of the income value added type. In order to ease administration, a specific dollar exemption was allowed for each firm, and certain types of businesses were exempted completely from the tax. In addition, firms were permitted a standard deduction of fifty percent of gross receipts, if itemized cost deductions did not equal this amount. These provisions, while destructive of the value added concept, succeeded in eliminating a large number of returns from small businesses whose payments would not justify collection costs.

Because of the equivalence between a value added tax and an income or sales tax, the tax on value added has no economic advantages over the other levies and shares their defects. From a political point of view, however, the value added tax may be superior, because it is paid initially by businesses and is not immediately apparent to the public. Substantial use of the VAT would reverse the recent trend toward reduced use of business taxes in the state-local fiscal system. (Table 2-3)

The property tax as a revenue source

The property tax is inferior to broad-based sales and personal income taxes on grounds of equity, elasticity, and ease of administration. Property value is not as good an indicator of ability to pay as personal income. Property values do not respond to growth in the economy as rapidly as either the general sales or personal income tax base. The property tax is developed by a process of valuation on the part of assessment personnel who must be highly trained if the process is to be accurate. Income

and sales taxes, in contrast, have their respective tax base measures established objectively by market forces beyond the control of the tax administrator.

But the property tax also has some unique benefits as a revenue source. Real estate cannot be picked up and moved to escape taxation. To a limited extent the property tax captures for the public sector a portion of the unearned increment on land value which society bestows. The tax is a way of getting from business and absentee landlords a contribution in support of local government. Where local services supported by the property tax enhance property values the tax takes on the aspects of a payment for benefits received--a concept fully recognized in economic theory.

Compared to other major revenue producers, the property tax tends to be difficult to administer. But a large part of this problem is due not so much to the tax itself as to its application on a local basis. Although the trend over the years has been away from State use of the property tax, a statewide property tax is preferable in many respects to a local levy. As a result States such as Massachusetts are now taking a new interest in using the real property tax as a State tax. A State property tax, even as a small supplement to the local levies, will give the States a real stake in good administration and would probably yield great dividends in improved equity.

Until an increased income tax can be fully implemented, a statewide property tax might provide a means for reducing the dependence of public schools on local taxes. Such an arrangement appeals to some economists who are concerned that an abrupt shift from property to non-property taxes for school support would result in a substantial and unwarranted increase in the value of existing property. The extent of the gains, if any, as well as their timing are impossible to predict. A transitional statewide property tax, particularly one of uncertain duration, might allow time for some adjustment in the real estate market and reduce the possibility of unwarranted enrichment of property owners.

However, the introduction of a statewide uniform property tax for general revenue purposes to help support schools would fall short of achieving the degree of taxpayer equity, responsiveness of the tax system to economic growth and ease of administration that heavier reliance on a State personal income tax would produce. The statewide uniform property tax would serve poorly as a substitute for structural reform of the State-local revenue system.

Improving Property Tax Administration

Better property tax administration is desirable in order to achieve greater uniformity of assessment and thereby enhance the acceptability of the tax. Assessing is a ministerial function, in theory at least, which contrasts with the policymaking functions of setting the tax rate to determine whether more or less revenue will be obtained from the property tax.

Improved administration will usually require larger expenditures. Such items as training and certification of assessors, annual reassessment, taxpayer notification, improved appeals mechanisms, and strong State supervision will require additional funds. In the longer run, however, it seems likely that more uniform assessments will make people more content with the property tax system and more willing to bear higher tax burdens.

By all indications the property tax is currently the most unpopular of all major taxes. Much of this dislike is probably due to the high rates prevailing in many local areas, especially in the northeast. But the disparities in assessments certainly win the property tax no friends. An intra-area dispersion coefficient of fifteen percent is generally considered indicative of good assessment practices, but even this means that, under a full-value assessment regime, half of all properties will be assessed at less than 85 percent or more than 115 percent of their true value.

What degree of excellence can be achieved by using the latest assessment techniques? Ronald Welch, Assistant Executive Secretary of the California State Board of Equalization, reports that computerized assessment of single-family homes has produced dispersion coefficients of from 2.3 to 4.8 percent. "The poorest of these coefficients,"

he notes, "is less than half the best dispersion coefficient that the nation's most accurate assessors have been able to achieve.[1/] With dispersion coefficients this small, ninety percent of all assessments would be within five to ten percent of market value, and ninety-nine percent within seven to fourteen percent of true value.

For the sake of comparison it must be remembered that the personal income tax achieves its seeming exactness in computation only by excluding several items of non-market income. The gross value of imputations, primarily the rental value of owner-occupied homes, came to ten percent of personal income in 1970.[2/] The personal income tax also places heavy compliance costs on individual taxpayers, while the expenses of administering the property tax are almost entirely reflected in the government budget.

The conclusion to be drawn is that modern, professional administration of the property tax can produce great dividends. While assessment of wealth may never be as accurate as measurement of income, the two can be brought much closer together. And although people will never be happy about paying taxes, good administration should increase available taxing capacity.

[1/] Ronald B. Welch, "Property Taxation: Policy Potentials and Probabilities," in Arthur D Lynn (ed.) The Property Tax and Its Administration. Madison: U. of Wisconsin, 1969.

[2/] Survey of Current Business, July 1971, p. 41.

Whether the property tax is used at the local level, at the State level, or at the metropolitan level, the heavy burden it imposes on low-income taxpayers can be mitigated with the use of the circuit-breaker -- the tax credit-rebate scheme discussed in Chapter 2. (See Table 2-9.) Combined with high-quality administration, the use of the circuit-breaker should considerable improve public acceptance of the property tax.

Metropolitan Property Tax

The use of regional property taxing districts, while incapable of eliminating all disparities within a State, has many of the desirable characteristics of a State property tax. At present, there are two such regional schemes on the statue books.

New Jersey's Hackensack Meadowlands Development Act of 1968 provides that the value of taxable real estate in the development area is to be divided among the Meadowlands communities in proportion to their area, irrespective of where the property is located. This provision frees the State planners from the need to assure each part of the Meadows a share of taxable land uses. In particular, the concentration of conservation and recreation lands in a few communities will no longer seem fiscally unattractive to those localities.

Another move toward regional equalization of tax resources in the "share the growth" bill just passed by the Minnesota legislature. The new law guarantees every unit of government in the seven-county Minneapolis-St. Paul area a share of the region's future growth in the property tax base, regardless of where in the area it occurs. The shared portion will consist of forty percent of the net growth of commercial-industrial valuation after 1971. All communities will

contribute forty percent of their net growth in business property, and each will receive back an assigned portion of this growth. Each government's share will be determined by its population, with an extra amount for less wealthy communities.

While the regional taxing approach does not eliminate tax competition among regions, it does produce a coincidence of interests for communities within a given region. In large part, therefore, it eliminates the incentives for fiscal zoning and the barriers to governmental consolidation discussed in Chapter 2. Equally important, greater uniformity in property tax rates will reduce tax induced differences between housing costs within the taxing region. While a metropolitan area is not large enough to internalize all the spill-overs from education, it is of appropriate size for the performance of many other governmental functions. The main drawback to regional financing of education is that it cannot eliminate income disparities among different regions. Also, the extent of redistribution possible within a given area is severely limited by the potential out-migration of high income residents, just as the middle class is leaving the cities today. Of course, if the State requires regional financing by law, fleeing the area would not provide an escape. But as long as a legislated regional approach is feasible, there would seem to be little reason not to move school finance all the way up to the State level.

Tax Rates Required For State Financing of Schools

To get an idea of the dimensions of the tax structure changes required to permit the shifting of responsibility for major financial support of schools to the State, we have computed the level of tax rates required to permit States to finance 90% of the 1969 level of State and local expenditures for local schools after deduction of

local school charges (school lunch sales, tuition, etc.) and Federal aid.[1/] The dollar amounts required for each State are given in Appendix Table 18. The approximate nature of these data should be emphasized. Interest expenditures are not included in school expenditures since the Census Bureau does not break down interest expenditure according to function. Also, the amount of Federal aid deducted includes some $0.4 or $0.5 billion for educational programs other than local schools. But these estimates do provide some indication of the revenue required for State financing. It should be noted that these figures relate exclusively to expenditures for local schools. The costs of State educational administration and services, aid to private schools, and special programs for the handicapped, adults, veterans, and other special classes are not included. Presumably these will continue to be financed by the States in addition to the 90% of local school costs.

In the following tables, (3-4, 3-5, 3-6, and 3-7), the first column presents actual tax rates in 1969. The State general sales tax rate is the rate which was in effect at the end of the 1969 fiscal year. The State personal income tax rate is expressed as a percentage of adjusted gross income in calendar year 1968, as defined for Federal income tax purposes. For the total of all other State and local tax revenue, and for State corporate income tax, rates are expressed as percentages of each State's personal income in calendar year 1968. The actual dollar amounts of State and local tax collections in fiscal 1969 are given in Appendix Table 17.

[1/] The approach taken here is to investigate the tax changes required to raise the specific amount of revenue needed to finance the support of schools. This is in contrast with the procedure of simply determining the amount of revenue collected with a tax system of specified characteristics, without regard to the needs for these revenues. For an example of the latter approach, see John Due, "Alternative Tax Sources for Education," in R.L. Johns, et al. (eds.), Economic Factors Affecting the Financing of Education. Gainesville, Fla.: National Educational Finance Project, 1970.

The tax rates required for financing 90% of school costs were calculated for four different situations. Case 1 is based on the assumption that any additional school costs which must be shifted to the State to reach the 90% figure are financed by State personal income and general sales taxes. In accordance with the principle of balanced use of these two tax sources, total revenues from the two taxes combined (including additional school costs) are reallocated so that an equal amount is collected from each. In the one case where the State is already financing more than 90% of school costs, it is assumed that total revenue from State personal income and general sales taxes will remain the same, and this amount is reallocated equally between the two sources. It should be noted that we are assuming in this exercise that total school expenditures, and therefore the total of State and local tax revenues, remain constant with the State assumption of 90% of school costs. We are simply shifting all but 10% of school costs from the local property tax to the State income and sales taxes. Therefore total revenue from State income and sales taxes will rise by the amount shifted to the State, and the total of all other State and local taxes will fall by an equal amount. The dollar amounts of tax revenues under these assumptions are given in Appendix Table 18.

The complexities involved in the decision of how much of the tax burden to place on business was discussed above. To provide some indication of the results of increasing the corporate income tax proportionately with the personal income tax to finance additional school

costs, we have assumed in Case 2 that the corporate income tax is increased along with the personal income and general sales taxes to maintain a constant ratio between the corporate and the personal income taxes. The same dollar amount is shifted from the local property tax as in Case 1, but this amount is now divided among the State personal income, general sales, and corporate income taxes. Appendix Table 19 gives the resulting tax revenues.

State financing of 90% of school costs imposes sharp increases in State revenue requirements in many States, as can be seen in Tables 3-4, 3-5, and 3-6, and Appendix Tables 18 and 19. The increases would be reduced considerably if the Federal Government were to assume the full costs of public welfare programs. Indeed, the arguments for shifting the educational function to the State level also imply the desirability of making welfare a Federal responsibility. In Case 3 it is assumed that the Federal Government funds all welfare programs. State personal income, general sales, and corporate income taxes are reduced by the amount of State public welfare expenditures from own sources (Appendix Table 20), while maintaining the same porportional relationship among the three taxes as in Case 2. The total of State and local taxes other than State personal income and general sales taxes is further reduced by the amount of local public welfare expenditures (Appendix Table 20). Resulting tax revenues appear in Appendix Table 21.

The Nixon administration's general revenue sharing plan would also greatly ease the pain of shifting educational financing to the State level. In Case 4 we have further reduced general sales,

personal income, and corporate income taxes by the amount which each State would receive under the revenue sharing proposal (as shown in Appendix Table 20), again maintaining the same proportional relationship among taxes as in Case 2. We have also reduced local taxes by the local share of revenue sharing funds (Appendix Table 20). The resulting dollar amounts of tax revenues are given in Appendix Table 22.

Chapter 4 presents a complete discussion of the implications of Federal financing of public welfare and Federal revenue sharing for school finance and for the improvement of State-local tax systems.

TABLE 3-4.--
STATE PERSONAL INCOME TAX RATES
AS PERCENT OF FEDERAL ADJUSTED GROSS INCOME IN 1968

STATES	Present System, 1969	Case 1	Case 2	Case 3	Case 4
UNITED STATES, TOTAL	2.2 1/	3.0	2.8	2.5	2.3
ALABAMA	1.2	2.5	2.2	2.0	1.6
ALASKA	3.4	2.7	2.8	2.4	2.0
ARIZONA	1.3	3.4	3.2	3.0	2.7
ARKANSAS	1.1	2.5	2.5	2.2	1.9
CALIFORNIA	1.7	3.5	3.2	2.7	2.5
COLORADO	1.9	3.8	3.5	3.2	2.9
CONNECTICUT	--	2.1	2.1	1.8	1.6
DELAWARE	3.7	2.2	2.4	2.1	1.8
~~DIST. OF COLUMBIA~~					
FLORIDA	--	2.1	1.8	1.7	1.5
GEORGIA	1.4	3.0	2.7	2.5	2.3
HAWAII	4.1	5.3	5.2	4.7	4.4
IDAHO	2.6	3.9	3.7	3.5	3.1
ILLINOIS	--	2.6	2.3	2.1	2.0
INDIANA	1.3	3.3	3.2	3.1	2.9
IOWA	1.5	3.7	3.5	3.2	2.9
KANSAS	1.3	3.4	3.1	2.8	2.6
KENTUCKY	1.7	3.5	3.2	3.0	2.6
LOUISIANA	0.6	2.2	1.7	1.4	1.1
MAINE	--	3.0	2.5	2.3	2.0
MARYLAND	2.4	3.3	3.2	2.9	2.7
MASSACHUSETTS	2.6	3.1	3.1	2.3	2.1
MICHIGAN	1.5	3.6	3.1	2.8	2.6
MINNESOTA	3.2	4.4	4.3	4.1	3.8
MISSISSIPPI	0.6	3.1	2.0	1.8	1.5
MISSOURI	1.0	3.0	2.9	2.6	2.4
MONTANA	2.2	3.0	3.0	2.7	2.5
NEBRASKA	1.1	3.8	3.6	3.4	3.2
NEVADA	--	2.3	2.0	1.8	1.6
NEW HAMPSHIRE	--	1.7	1.5	1.3	1.2
NEW JERSEY	--	2.2	2.2	2.0	1.8
NEW MEXICO	1.0	2.8	2.6	2.3	1.8
NEW YORK	3.5	3.3	3.4	2.8	2.6
NORTH CAROLINA	2.3	2.4	2.4	2.3	2.0
NORTH DAKOTA	1.2	4.0	3.8	3.5	3.1
OHIO	--	2.4	2.0	1.8	1.7
OKLAHOMA	0.9	2.2	2.0	1.6	1.3
OREGON	3.8	4.2	4.1	3.9	3.6
PENNSYLVANIA	--	2.4	2.5	2.2	2.0
RHODE ISLAND	--	2.3	2.4	1.8	1.6
SOUTH CAROLINA	1.7	2.9	2.7	2.6	2.3
SOUTH DAKOTA	--	4.4	3.8	3.6	3.3
TENNESSEE	--	2.3	2.3	2.1	1.9
TEXAS	--	1.9	1.6	1.5	1.3
UTAH	2.2	3.8	3.7	3.4	3.1
VERMONT	3.3	2.9	2.9	2.5	2.1
VIRGINIA	2.4	3.0	2.9	2.8	2.5
WASHINGTON	--	3.7	3.2	2.8	2.5
WEST VIRGINIA	0.9	3.4	3.3	3.0	2.6
WISCONSIN	4.0	4.3	4.3	4.0	3.7
WYOMING	--	3.9	3.3	3.2	2.9

1/ Average rate for the 35 states with a broad-based personal income tax.

Source: ACIR staff calculations based on data in Appendix Tables 17 through 22.

TABLE 3-5.--
STATE GENERAL SALES TAX RATES

STATES	Present System, end of fiscal 1969	Case 1	Case 2	Case 3	Case 4
UNITED STATES, TOTAL	3 1/	3.9 1/	3.7 1/	3.4 1/	3.1 1/
ALABAMA	4	3.2	2.9	2.6	2.2
ALASKA	--	3.0	3.1	2.6	2.2
ARIZONA	3	2.8	2.5	2.4	2.2
ARKANSAS	3	2.8	2.4	2.2	1.9
CALIFORNIA	4	5.3	4.7	3.9	3.7
COLORADO	3	5.1	4.8	4.2	3.9
CONNECTICUT	3.5	4.6	4.7	3.9	3.7
DELAWARE	--	5.6	6.0	5.2	4.5
~~DIST. OF COLUMBIA~~					
FLORIDA	4	2.4	2.0	1.9	1.7
GEORGIA	3	2.8	2.5	2.4	2.1
HAWAII	4	3.3	3.2	2.9	2.7
IDAHO	3	4.5	4.3	4.0	3.6
ILLINOIS	4.25	4.2	3.6	3.3	3.1
INDIANA	2	2.6	2.6	2.5	2.3
IOWA	3	3.7	3.5	3.2	3.0
KANSAS	3	4.1	3.8	3.5	3.2
KENTUCKY	5	4.5	4.1	3.8	3.4
LOUISIANA	2	2.0	1.6	1.3	1.0
MAINE	5	4.8	4.1	3.6	3.3
MARYLAND	4	10.6	10.4	9.3	8.8
MASSACHUSETTS	3	10.4	10.1	7.5	6.9
MICHIGAN	4	4.7	4.1	3.7	3.4
MINNESOTA	3	7.3	7.1	6.7	6.3
MISSISSIPPI	5	3.1	1.9	1.8	1.5
MISSOURI	3	3.6	3.5	3.1	2.9
MONTANA	--	3.4	3.3	3.1	2.8
NEBRASKA	2	3.7	3.5	3.3	3.1
NEVADA	3	2.4	2.0	1.9	1.7
NEW HAMPSHIRE	--	3.3	2.8	2.6	2.3
NEW JERSEY	3	5.7	5.7	5.1	4.8
NEW MEXICO	3	2.1	1.9	1.6	1.3
NEW YORK	3	8.8	8.9	7.5	7.0
NORTH CAROLINA	3	3.1	3.1	3.0	2.6
NORTH DAKOTA	3	4.1	3.9	3.6	3.2
OHIO	4	4.8	4.1	3.7	3.4
OKLAHOMA	2	2.8	2.5	2.0	1.6
OREGON	--	5.5	5.5	5.1	4.8
PENNSYLVANIA	6	5.4	5.4	4.8	4.4
RHODE ISLAND	5	3.3	4.5	3.4	3.0
SOUTH CAROLINA	4	4.1	3.8	3.7	3.2
SOUTH DAKOTA	3	5.0	4.3	4.1	3.8
TENNESSEE	3	2.5	2.5	2.3	2.0
TEXAS	3	3.4	2.9	2.7	2.3
UTAH	4	5.6	5.3	5.0	4.5
VERMONT	3	5.2	5.3	4.4	3.8
VIRGINIA	3	5.5	5.4	5.2	4.7
WASHINGTON	4.5	3.1	2.7	2.3	2.1
WEST VIRGINIA	3	2.3	2.2	2.0	1.7
WISCONSIN	3	13.0	12.9	12.0	11.2
WYOMING	3	3.1	2.6	2.5	2.2

1/ Median State rate.

Source: ACIR staff calculations based on data in Appendix Tables 17 through 22.

TABLE 3-6.--
STATE CORPORATION INCOME TAX RATES
AS PERCENT OF STATE PERSONAL INCOME IN 1968

STATES	Present System 1969	Case 1	Case 2	Case 3	Case 4
UNITED STATES, TOTAL	0.61 1/	0.61	0.80	0.71	0.65
ALABAMA	0.35	0.35	0.67	0.59	0.50
ALASKA	0.38	0.38	0.31	0.26	0.22
ARIZONA	0.36	0.36	0.85	0.82	0.73
ARKANSAS	0.49	0.49	1.08	0.97	0.83
CALIFORNIA	0.77	0.77	1.41	1.18	1.11
COLORADO	0.47	0.47	0.88	0.79	0.73
CONNECTICUT	0.68	0.68	0.63	0.53	0.50
DELAWARE	0.75	0.75	0.48	0.41	0.36
DIST. OF COLUMBIA					
FLORIDA	--	--	0.51	0.49	0.42
GEORGIA	0.58	0.58	1.08	1.00	0.90
HAWAII	0.51	0.51	0.64	0.58	0.54
IDAHO	0.53	0.53	0.77	0.72	0.64
ILLINOIS	--	--	0.65	0.59	0.56
INDIANA	0.05	0.05	0.13	0.12	0.11
IOWA	0.27	0.27	0.60	0.55	0.51
KANSAS	0.27	0.27	0.64	0.58	0.54
KENTUCKY	0.46	0.46	0.88	0.81	0.72
LOUISIANA	0.35	0.35	1.02	0.82	0.63
MAINE	--	--	0.71	0.63	0.57
MARYLAND	0.39	0.39	0.52	0.47	0.44
MASSACHUSETTS	0.88	0.88	1.04	0.77	0.71
MICHIGAN	0.67	0.67	1.42	1.27	1.18
MINNESOTA	0.68	0.68	0.91	0.87	0.81
MISSISSIPPI	0.68	0.68	2.26	2.04	1.69
MISSOURI	0.12	0.12	0.36	0.32	0.29
MONTANA	0.40	0.40	0.53	0.49	0.44
NEBRASKA	0.15	0.15	0.49	0.47	0.44
NEVADA	--	--	0.58	0.55	0.49
NEW HAMPSHIRE	--	--	0.42	0.38	0.35
NEW JERSEY	0.56	0.56	0.61	0.55	0.52
NEW MEXICO	0.19	0.19	0.51	0.44	0.34
NEW YORK	0.81	0.81	0.78	0.66	0.62
NORTH CAROLINA	0.82	0.82	0.86	0.83	0.72
NORTH DAKOTA	0.13	0.13	0.43	0.40	0.34
OHIO	--	--	0.58	0.52	0.48
OKLAHOMA	0.30	0.30	0.69	0.55	0.44
OREGON	0.56	0.56	0.61	0.57	0.54
PENNSYLVANIA	0.71	0.71	0.68	0.60	0.56
RHODE ISLAND	0.87	0.87	0.69	0.51	0.46
SOUTH CAROLINA	0.64	0.64	0.97	0.96	0.83
SOUTH DAKOTA	0.03	0.03	0.91	0.86	0.80
TENNESSEE	0.60	0.60	0.63	0.59	0.52
TEXAS	--	--	0.44	0.40	0.30
UTAH	0.37	0.37	0.63	0.59	0.53
VERMONT	0.43	0.43	0.38	0.32	0.28
VIRGINIA	0.48	0.48	0.58	0.56	0.51
WASHINGTON	--	--	0.89	0.78	0.71
WEST VIRGINIA	0.09	0.07	0.34	0.31	0.27
WISCONSIN	0.71	0.71	0.77	0.72	0.67
WYOMING	--	--	0.87	0.84	0.75

1/ Average rate for the 40 states with a corporation income tax.

Source: ACIR staff calculations based on data in Appendix Tables 17 through 22.

TABLE 3-7.--

TOTAL OF STATE AND LOCAL TAX REVENUES OTHER THAN STATE PERSONAL INCOME TAX AND GENERAL SALES TAX AS PERCENT OF STATE PERSONAL INCOME IN 1968

STATES	Present System, 1969	Case 1	Case 2	Case 3	Case 4
UNITED STATES, TOTAL	8.3	6.4	6.7	6.4	6.0
ALABAMA	6.3	5.7	6.1	6.0	5.5
ALASKA	7.5	6.1	6.1	6.0	5.7
ARIZONA	9.0	7.5	8.0	7.9	7.4
ARKANSAS	6.5	5.3	5.9	5.8	5.3
CALIFORNIA	10.1	7.9	8.5	7.9	7.4
COLORADO	8.6	5.8	6.2	5.9	5.4
CONNECTICUT	7.9	5.7	5.6	5.5	5.2
DELAWARE	6.9	6.2	6.0	5.8	5.6
DIST. OF COLUMBIA					
FLORIDA	7.8	7.2	7.7	7.6	7.1
GEORGIA	6.3	5.3	5.8	5.6	5.1
HAWAII	5.8	5.8	6.0	5.9	5.6
IDAHO	8.5	6.4	6.7	6.4	5.9
ILLINOIS	7.1	5.0	5.6	5.6	5.3
INDIANA	6.8	4.6	4.7	4.5	4.2
IOWA	8.5	6.2	6.6	6.2	5.8
KANSAS	7.8	5.7	6.0	6.0	5.6
KENTUCKY	6.4	5.3	5.7	5.6	5.2
LOUISIANA	9.3	8.1	8.8	8.5	8.0
MAINE	8.4	6.0	6.8	6.5	6.1
MARYLAND	7.6	4.9	5.0	4.9	4.5
MASSACHUSETTS	8.9	6.6	6.7	5.5	5.1
MICHIGAN	8.0	5.8	6.6	6.2	5.8
MINNESOTA	8.4	5.4	5.6	5.1	4.7
MISSISSIPPI	7.7	7.4	8.9	8.7	7.8
MISSOURI	6.5	4.5	4.8	4.7	4.3
MONTANA	10.4	7.7	7.9	7.4	6.9
NEBRASKA	9.0	5.7	6.0	6.0	5.5
NEVADA	9.5	8.0	8.6	8.2	7.8
NEW HAMPSHIRE	9.4	6.5	6.9	6.5	6.1
NEW JERSEY	9.4	6.7	6.8	6.7	6.3
NEW MEXICO	8.2	7.8	8.1	8.1	7.6
NEW YORK	10.3	8.6	8.5	8.0	7.6
NORTH CAROLINA	6.4	6.2	6.2	6.1	5.7
NORTH DAKOTA	9.2	6.5	6.7	6.6	6.0
OHIO	7.2	4.9	5.4	5.2	4.8
OKLAHOMA	8.3	6.8	7.2	7.0	6.6
OREGON	8.7	5.1	5.1	4.9	4.5
PENNSYLVANIA	7.8	6.0	6.0	5.8	5.4
RHODE ISLAND	8.4	6.8	6.6	6.4	6.1
SOUTH CAROLINA	6.0	5.0	5.4	5.3	4.9
SOUTH DAKOTA	10.5	6.1	7.0	6.9	6.3
TENNESSEE	7.6	6.1	6.1	6.0	5.5
TEXAS	7.9	6.3	6.7	6.6	6.2
UTAH	7.8	5.6	5.8	5.8	5.3
VERMONT	10.3	8.3	8.3	8.0	7.6
VIRGINIA	7.1	5.6	5.7	5.4	5.1
WASHINGTON	7.1	5.4	6.3	6.2	5.8
WEST VIRGINIA	6.5	5.3	5.5	5.5	5.1
WISCONSIN	9.0	6.0	6.0	5.6	5.2
WYOMING	10.2	7.2	8.1	7.7	7.1

Source: ACIR staff calculations based on data in Appendix Tables 17 through 22.

Chapter 4

A HIGH QUALITY STATE-LOCAL REVENUE SYSTEM--THE PROSPECTS FOR ADOPTION

In the preceding chapter we set forth the characteristics of a high-quality State-local revenue system. The two most critical features of that system are:

1. Balanced State use of both the personal income tax and general retail sales levy;

2. State revenue system productive enough to finance most of the cost of elementary and secondary public education.

At the present time, only two States--Hawaii and North Carolina--score high marks on both of these major tests.

In this chapter, we take the analysis to its policy conclusion--is it reasonable to assume that most of the other State legislative bodies will move forward to meet these two tests within a reasonable period of time--say, five years?

In order to answer this question it is necessary to examine both the internal and external factors working for and against the creation of such a revenue and financing system. This distinction is important because it permits us to weigh the relative contribution that the internal policy makers (the governors and the State legislators) and the external policy makers (the judges and the Congress) could make to the resolution of this question.

Prospects for Reform From Within the System

There are two internal forces that are pushing State policy makers in the general direction of major tax reform.

First, there is the unrelenting pressure provided by growing expenditure demands--a factor that is forcing State legislators to create a strong dual income and sales tax system. A measure of the pressure on State governments can be seen in the major recommendations in governors' budget messages over the last three years (see Table 4-1).

One of the most dramatic effects of this expenditure demand is to be found in the gradual State development of the dual income and sales tax system. In 1960, 19 States imposed both the State personal income tax and a general retail sales levy. Now the number of dual tax systems stands at 36.

The powerful effect of increased expenditure demand is also reflected in the fact that the claims of our Federal-State-local system on the gross national product have increased substantially since World War II--rising from 25 per cent of GNP in 1946 to almost 33 per cent by 1971. While the Federal claim has remained fairly level, State-local expenditures as a percent of GNP rose from 6.2 per cent in 1946 to 12.7 per cent in 1969.

This constant increase in taxes in general and in State-local taxes in particular has created its countervailing force--there is increasing discussion of a "taxpayers revolt." In April 1971, Lou Harris reported that 64 percent of the American people felt that "taxes have reached the breaking point"--up from 60 percent in the previous year and 54 percent in 1969.[1/]

[1/] Louis Harris, "The Harris Survey," The Washington Post, April 18, 1971, p. G4.

TABLE 4-1

MAJOR RECOMMENDATIONS IN GOVERNORS' BUDGET MESSAGES, 1968-1971

State	Year	Recommendations
Arkansas	1971	Broaden sales tax base to include various services and cigarettes.
Connecticut	1969	Broaden sales tax base; adopt 2% tax on interest, dividend, and capital gains income.
	1971	Restore gross income tax on unincorporated businesses and extend to professionals.
Delaware	1969	Broaden corporate income tax base to include inter-corporate dividends, interest income, and capital gains; adopt tobacco products tax; opposed to a sales tax.
Florida	1968	Adopt 4% tax on commercial leases and office rentals.
	1971	Adopt constitutional amendment to permit corporate income tax and abolish capital stock tax.
Georgia	1970	Adopt income tax credit for sales tax paid.
Indiana	1971	Increase state taxes to provide property tax relief and increase state financing of school costs to 50%; adopt new tax of 4¢ on nonreturnable, nondisintegrating containers, new sewer user charge, and new employers' payroll surtax to finance job training.
Iowa	1971	Increase state taxes to finance sharply increased school aid and thus relieve property taxpayers; set limits on property tax rates.
Kansas	1971	Eliminate federal income tax deduction on corporate income tax; adopt gift tax.
Maine	1969	Individual and corporate income tax proposed as one alternative for collecting needed new revenue.
	1971	Expand sales tax base.
Maryland	1969	Broaden sales tax base.

TABLE 4-1 (Continued)

State	Year	Recommendations
Massachusetts	1971	Broaden income and sales tax bases
Michigan	1971	Replace school property taxes with increased personal income tax and a 2% value-added tax; restore income tax credits for property tax and city income tax paid.
Minnesota	1971	Increase personal income taxes progressively; eliminate preferential treatment of capital gains and deductibility of federal income tax; broaden sales tax base; use higher taxes to increase school aid and relieve property taxpayers; limit property taxes.
Montana	1971	Disallow federal income tax deduction on personal income tax; replace $600 dependency deduction with a $20 credit.
New Hampshire	1971	Adopt 3% state income tax with a property tax credit; adopt temporary (one year) 1% payroll tax; repeal tax on intangibles income, commuters' income tax, and head and poll taxes.
North Carolina	1969	Adopt tobacco excise tax.
Ohio	1971	Adopt individual and corporate income tax with property tax credit; use revenue to raise school aid and assume county welfare functions; limit property taxes.
Oregon	1969	Adopt 3% sales tax.
	1971	Adopt income tax credit for property tax paid; conduct study of property tax relief.
Pennsylvania	1969	Adopt individual income tax.
	1970	Adopt personal income tax; provide property tax relief for aged.
	1971	Adopt 5% personal income tax, with credit of 30% of all local nonproperty taxes.
Rhode Island	1968	Adopt personal income tax.
	1969	Adopt 10% tax on investment income.
	1971	Adopt graduated personal income tax; repeal taxes on unincorporated businesses and investment income.

TABLE 4-1 (Continued)

State	Year	Recommendations
South Carolina	1971	Adopt property tax homestead exemption for senior citizens, phased in slowly to ease local government revenue losses.
South Dakota	1971	Enact 3% personal income tax and 5% corporate income tax, with credits for ad valorem taxes paid on merchandise inventories and for property taxes of elderly.
Vermont	1969	Adopt 4% sales tax with diminishing credit against income taxes.
	1971	Increase credits for property tax of elderly and renters; adopt graduated income tax exemption for elderly with income under $7,500.
Washington	1971	Adopt constitutional amendment to authorize new flat rate income tax.

Because Federal and State governments depend so heavily on voluntary compliance with tax laws, it is particularly disconcerting to find as the poll did, that 69 per cent of those polled would sympathize with a taxpayers revolt where people would refuse to pay any more taxes unless taxes and spending were reduced.

The recent experience of many of the States that have sought to upgrade the quality of their State-local revenue system points up toughened public resistance to higher taxes. Oregon voters defeated a proposal to add a general sales tax to the State tax system by a margin of seven to one in 1969, while Washington State voters turned down an income tax proposition by three to one in 1970.

Despite its high marks as a test of ability to pay, the popularity of the personal income tax with the public is by no means an established fact. In 1970, Alabama voters rejected a proposal calling for an increase in personal income tax rates and in the same year the South Dakota electorate turned down a plan to enact a personal income tax. This summer the Connecticut legislature enacted a personal income tax only to find public reaction so bitter that it quickly repealed this tax and raised the rate of the existing general sales tax to a record-breaking 6-1/2 per cent. Enough voters were irritated by the Maine income tax to obtain a November 1971 referendum on this levy despite the fact that it has been in operation almost two years. The electorate, however, voted to retain the income tax. The Montana legislature asked the voters to decide whether the State should enact a general sales tax or sharply increase the existing State personal income tax, and the voters chose the latter.

Taxation by referendum may reach the ultimate in Missouri. There is a move afoot in that State to amend the Constitution so as to require

that every tax increase--State and local--be subject to the vote of the people. This demand was undoubtedly prompted in part by the fact that the State legislature recently voted an increase in the State personal income tax shortly after the electorate had voted down the same proposition in an advisory referendum.

At the local tax level, the electorate is voting down school finance proposals with increasing frequency. This is especially significant because education has traditionally stood out as the fair haired boy in the State-local finance family.

The political hazard involved in raising taxes is also reflected in the relatively high political mortality rate for governors. The most dramatic and recent example of this phenomenon is to be found in the failure of Governor Norbert Tiemann's bid for re-election in 1970. His defeat has been attributed primarily to the fact that Governor Tiemann played a strong leadership role in the enactment of Nebraska's dual income and sales tax system.

Evaluation of the Expenditure Pressure Factor.

Caught between unrelenting expenditure demands on the one hand and toughened public resistance to higher taxes on the other, progress toward balanced use of State income and sales taxes will probably continue at a slow and halting pace. Because the decision to increase taxes sharply is so politically distasteful it is necessary to generate a crisis situation before it is possible to secure the requisite consent for a major departure from the tax status quo. The rocky and tortuous path of major tax reform in Ohio provides a dramatic case study of the coma and convulsion character of State tax politics.[1/]

1/The analysis of the Ohio experience was made by Professor Stocker of Ohio State University and is appended with this report.

Despite the growing tendency to block efforts to strengthen the State tax system by means of referenda, it is probably safe to assume that five or six of the 11 non-income tax States will be forced by mounting expenditure pressures and the demand for property tax relief to adopt a State personal income tax within the next five years. It is also reasonable to assume that at least one of the five non-sales tax States will be pressured into the enactment of a consumer levy. Only a massive increase in Federal aid flows could take most of the States off the tax increase hook.

If this prediction proves accurate we can expect to see at least 42 States in the dual income-sales tax category within five years. Moreover, many of the dual tax States now making relatively anemic use of either the sales or the personal income tax will be forced by the pressure of events to correct the imbalance.

The growing public dissatisfaction with the local property tax stands out as the major force working for State financing of most of the cost of public education. While this ancient levy has never suffered for the want of bitter critics, it is doubtful that it has ever been subject to such strident criticism as is the case at the present time. As this tax takes on a truly massive character (a $40 billion annual revenue yield) its inherent defects--regressivity and lack of uniformity--take on an increasingly harsh character. The property tax has a third weakness--the unequal distribution of tax resources among local governments and school districts.

Growing public interest in State financing of education can be largely traced to the demand for both property tax relief and a more equitable system for financing local schools. Support for full State

funding of education has increased rapidly since 1968.

1968--Two distinguished educators, James B. Conant and the late James E. Allen, Jr., endorsed the full State funding concept citing deficiencies in local property tax financing as a primary reason for their decision to recommend this basic shift in funding responsibility.

1969--The Advisory Commission on Intergovernmental Relations recommended that the State assume the primary role in financing local schools.[1/] Freeing up the local property tax for local general government use and the creation of a more equitable method for financing education stood out as the two primary reasons for this recommendation.

In the same year Governor Milliken of Michigan launched his campaign calling for complete State assumption for the cost of local schools. While the legislature has not bought the Milliken proposal to date, the key issues--property tax relief and equalizing educational opportunity--remain the avowed goals of his tax reform effort.

1970--Governor Anderson of Minnesota was elected after promising to shift most of the financing of schools to the State level. Once again, property tax relief and equalization of educational opportunity emerged as the key arguments for this recommended change.

[1/] ACIR, State Aid to Local Government, p. 14.

1971--As a first step toward State funding, the State of Maryland assumed full responsibility for financing local school construction.

In its August 1971 decision (Serrano versus Priest), the California Supreme Court gave vent to dissatisfaction with the property tax when it declared unconstitutional a system for financing education that permitted the accidents of local property tax geography largely to determine the amount of resources that could be placed behind the education of a public school child.1/

On October 12, 1971, U.S. Education Commissioner, Sidney P. Marland, Jr., told a convention of members of State boards of education that reliance on property taxes to finance public schools is "regressive, anachronistic, and resting upon inequity."2/

On October 15, 1971 U.S. District Judge Miles A. Lord directed the Minnesota Legislature to overhaul its educational finance system and re-enforced the Serrano decision holding that "plainly put, the rule is that the level of spending for a child's education may not be a function of wealth other than the wealth of the State as a whole."3/

1/The implications of the Serrano decision on the development of our State-local fiscal system will be analyzed in greater detail in a subsequent section of this chapter.

2/Washington Evening Star, October 13, 1971, p. B1.

3/Washington Post, October 16, 1971, p. A3.

On October 18, 1971, the New York Times, in a feature story, reported that a majority of the prestigious Fleischmann Commission favors a plan to have New York State assume full responsibility for distributing all funds for public elementary and secondary schools.[1/]

Despite its growing momentum, the full State funding movement confronts two formidable barriers--the money question and the control issue. Of the two, the money question probably stands out as the more formidable problem for State legislators. The average State would have to raise its revenue collections by 31 per cent in order to underwrite 90 per cent of the cost of local schools (Table 4-2). In many States the State tax hike would be far greater--Connecticut, 53 per cent; Nebraska, 70 per cent; New Hampshire, 79 per cent; New Jersey, 63 per cent; Oregon, 60 per cent; and South Dakota, 89 per cent.

It is very doubtful that additional State revenue of this magnitude could be obtained in all States by just raising State income and consumption taxes. Many States would be forced to impose a state-wide property tax for schools, thereby sacrificing much of the property tax relief objective in order to achieve the second major goal--the equalization of resources among the local school districts.

For many States, however, a state-wide property tax for schools fairly bristles with its own set of controversial tax implications.

[1/] New York Times, October 18, 1971, p. 1.

Table 4-2
PERCENTAGE INCREASE IN STATE TAXES REQUIRED FOR STATE FINANCING
OF 90% OF PUBLIC SCHOOL COSTS
(BASED ON 1969 DATA)
(In Millions of Dollars)

States	90% of State-Local Expenditure for Local Schools, 1969[1/]	Actual State Expenditure for Local Schools From Own Funds 1969[2/]	Additional State Expenditure Required	Additional State Expenditure Required as % of 1969 Taxes
United States, Total	25,835.3	12,708.6	13,138.0	31.3
Alabama	232.7	189.7	43.0	7.5
Alaska	42.8	27.8	15.0	20.9
Arizona	231.8	157.1	74.7	18.2
Arkansas	138.7	86.2	52.5	16.5
California	3,038.9	1,346.6	1,692.3	32.3
Colorado	274.5	83.0	191.5	46.9
Connecticut	416.3	131.0	285.3	52.7
Delaware	85.2	72.2	13.0	8.3
Florida	741.6	627.6	114.0	9.0
Georgia	458.5	321.9	136.6	16.5
Hawaii	98.3	109.6	(-11.3)	(-3.9)
Idaho	71.6	33.5	38.1	25.3
Illinois	1,405.6	455.6	950.0	49.3
Indiana	644.2	263.1	381.1	43.2
Iowa	409.0	208.0	201.0	34.1
Kansas	268.8	103.1	165.7	43.0
Kentucky	268.0	179.2	88.8	13.6
Louisiana	385.4	268.2	117.2	15.1
Maine	100.0	35.7	64.3	40.6
Maryland	602.2	216.9	385.3	44.7
Massachusetts	658.9	170.8	488.1	39.6
Michigan	1,385.6	684.1	701.5	31.2
Minnesota	618.7	250.0	368.7	40.3
Mississippi	161.4	143.4	18.0	4.5
Missouri	524.9	220.5	304.4	42.8

Table 4-2
PERCENTAGE INCREASE IN STATE TAXES REQUIRED FOR STATE FINANCING
OF 90% OF PUBLIC SCHOOL COSTS
(BASED ON 1969 DATA)
(In Millions of Dollars)
(Continued)

States	90% of State-Local Expenditure for Local Schools, 1969[1]	Actual State Expenditure for Local Schools From Own Funds 1969[2]	Additional State Expenditure Required	Additional State Expenditure Required as % of 1969 Taxes
Montana	87.3	32.4	54.9	49.1
Nebraska	175.0	22.2	152.8	70.3
Nevada	67.4	41.1	26.3	20.9
New Hampshire	69.4	3.6	65.8	79.1
New Jersey	994.7	244.4	750.3	63.5
New Mexico	129.0	117.9	11.1	4.7
New York	3,341.3	2,088.9	1,252.4	23.5
North Carolina	420.3	397.3	23.0	2.3
North Dakota	73.3	25.5	47.8	45.4
Ohio	1,238.9	377.6	861.3	55.9
Oklahoma	218.2	109.7	108.5	23.0
Oregon	318.2	74.0	244.2	60.2
Pennsylvania	1,483.6	777.8	705.8	31.2
Rhode Island	94.1	41.0	53.1	26.5
South Carolina	217.3	154.2	63.1	13.6
South Dakota	91.6	9.7	81.9	89.1
Tennessee	327.9	176.5	151.4	23.4
Texas	1,180.8	623.6	557.2	32.6
Utah	158.7	93.8	64.9	31.9
Vermont	50.3	24.2	26.1	25.9
Virginia	491.4	270.4	221.0	23.9
Washington	541.4	333.2	208.2	21.2
West Virginia	157.8	102.7	55.1	15.9
Wisconsin	593.3	162.4	430.9	39.5
Wyoming	50.5	19.9	30.6	39.3

1/After deduction of local charges and miscellaneous revenue and Federal aid. Amount of Federal aid deducted ($3.1 billion) includes "other Federal aid" (other than direct Federal aid for local schools or higher education) of up to $0.4 or $0.5 billion. Distribution by State not available. 2/Includes direct and intergovernmental expenditure.

Source: ACIR staff calculations based on U.S. Census data

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The most important of these would be the demand that the States equalize property tax assessments both within and among local assessment districts--a State responsibility now more honored in the breach than in the observance. While most property tax reformers would enthusiastically approve such a development, the resulting shift in tax burden among various classes of taxpayers is enough to make many State policy makers think long and hard before endorsing a state-wide property tax.

Despite the Urban Institute evidence that indicates that there is no necessary relationship between the extent of State financing and State control of local schools, the prospect of State financing of all or most of the cost of public education does trigger fear that local school district officials will lose control over all major expenditure decisions. The prospect of negotiating teachers' salaries on a state-wide basis also cools the ardor of some State policy makers who might otherwise favor State financing of education.

Evaluation of the Property Tax Dissatisfaction Factor.

In view of the controversial character of this proposition, it is doubtful if rising public dissatisfaction with the local property tax alone can push many States into the full State funding camp within the next five years. Thus, without outside help, progress toward full State funding can be expected to be fairly slow. The full State funding movement probably will require both a strong push from the courts and the added impetus of Federal financial incentives if it is to become an accomplished fact in most States within five years.

The Role of the Judges in Promoting State-Local Fiscal Reform

An optimistic reformer could view the recent Serrano decision of the California Supreme Court as the stick of dynamite capable of blasting away the massive obstacles that now block both full State funding of education and the creation of a more productive and equitable State-local revenue system.

It can be argued that full State funding of education stands out as the most practical way to carry out the California Supreme Court mandate that the level of spending for a child's education may not be a function of wealth other than the wealth of a State as a whole.

Once full State funding is viewed as a logical if not a constitutional imperative of Serrano, it then becomes reasonable to anticipate far-reaching reforms in the State-local tax system in order to underwrite full State funding of education. To be more specific, many States would be required to make far more effective use of the personal income tax and in some instances greater use of the sales tax. Moreover, many States would also be required to levy a state-wide property tax, thereby setting the stage for needed overhaul of the property tax system in general and the local assessment process in particular.

Thus, according to this optimistic view, the judges would have triggered quick and sweeping improvements--fiscal reforms that only come slowly and in bits and pieces out of the State legislative arenas.

This optimistic "stick of dynamite" thesis, however, is subject to three important qualifications:

1. The explosive charge of the Serrano decision may not prove to be as great as it appeared on first inspection.

2. The dynamite may have a long or delayed-type fuse--the United States Supreme Court may not be willing to give a definitive ruling on this controversial issue for several years.

3. The U.S. Supreme Court might not be willing to detonate the charge when it does take the issue under review.

Analysis of the Serrano decision will support the conclusion that the California Court ruling did not demand as radical a departure from the status quo as that advocated by many public finance reformers. Serrano neither outlaws the use of the property tax for financing education nor does it necessarily strip local school boards of their traditional right to determine the general level of school financing by setting property tax levies.

If Serrano becomes ruling law, the States have a choice of at least three basic remedies:

1. Local Control--Strong State Equalization. Local school boards could still control the total level of spending because they would set the property tax rates to be applied to a tax base equalized by the State. The State equalization process could be effected by either redistricting (creation of equal wealth per pupil districts) or power equalization (a rigorous Robin Hood-type plan for transferring property tax dollars from wealthy to poor districts).

2. State Funding--Limited Local Supplementation (ACIR approach). The State would fund the basic cost of education but local school districts would be permitted to supplement these State funds with limited local property tax levies for education. If the local supplement is strictly limited to a small fraction of the State contribution this alternative would probably be held as substantially meeting the equalization requirements of Serrano.

3. Full State Funding--No Local Supplementation. There is no question but what this alternative meets the equalization requirements of Serrano. In one important respect it goes beyond Serrano--it not only eliminates variations in educational support levels caused by wealth differentials but also those created by local commitment differentials.

Not only are the policy implications of Serrano not necessarily as sweeping as those championed by many reformers, its leverage effect will be difficult to calculate. Even if it upholds the Serrano logic, the United States Supreme Court may not hand down a definitive ruling in this area for several years to come. One student of the judicial system, Attorney John Silard of Washington, D.C., has noted that there is usually a rather long gestation process before the Supreme Court brings forth a comprehensive ruling on a new and major policy issue. In support of this view, he cites the relatively long period of time involved in hammering out the school desegregation cases, the reapportionment issue, and church-State relationships in the field of education.

Effect of Serrano on the State-Local Fiscal System.

Despite all the uncertainties surrounding the Serrano decision, there is no question but what the California Supreme Court decision now strengthens considerably the case of those who are urging State legislators to adopt stronger State policies with respect to the financing of elementary and secondary education. The Serrano decision may also help create a Federal legislative policy designed to encourage the States to assume the key role in the financing of the Nation's local school system.

Strengthening the State Fiscal System--The Federal Role

There is increasing evidence to suggest that the Federal Government will soon develop aid policies which will both help States make more effective use of the personal income tax and facilitate their assumption of most of the responsibility for financing local schools.

Federal Encouragement of State Use of the Personal Income Tax.

As State and local demand for "no strings" revenue sharing has become more positive, it has prompted Congress to become far more interested in the adequacy of the State revenue system in particular. Throughout the recent revenue sharing hearings before the House Ways and Means Committee, the State representatives were repeatedly beaten over the head with the fact that 11 States did not impose the broad-based income tax and that many of the other States made anemic use of this prime revenue source.

Confronted with the State rejoinder that interstate tax competition and intensive Federal use of the income tax had inhibited State use of the personal income tax, Federal legislators now appear far more receptive to the idea of providing the States with income tax incentives. The offer of IRS collection of State income tax and the provision of either a partial Federal tax credit or an "incentive grant" tied to State use of the personal income tax now appear to be likely candidates for inclusion in any general State and local aid bill reported out by the House Ways and Means Committee.

If Congress buys this incentive approach--and the prognosis appears fairly good--then it is probably safe to assume that the combination of expenditure pressures and a Federal incentive policy would place virtually all of the States within the income tax fold in the next five years.

Federal Aid--Welfare Relief and Revenue Sharing

It can be argued that the States would be in a far better position to finance local school costs once the Federal Government both assumed the responsibility for public welfare costs and adopted a revenue sharing program along the general lines proposed by the Administration. The data set forth in Table 4-3 generally support this contention. For 21 States the task of financing 90 per cent of local school cost does not appear too formidable. For this group a State tax increase of less than 10 per cent could theoretically do the job.

This conclusion rests, however, on two rather heroic assumptions. First, the legislatures in each of these 21 States that is within striking range of the full State funding goal would have to earmark for local schools every State dollar released by Federal take over of welfare costs and every dollar received from the Federal revenue sharing fund. The second assumption is no less heroic. It calls on the State legislatures to hold the line on total school costs thereby avoiding the "leveling up" phenomenon that can easily accompany State take over of local school costs.

Once these two considerations are thrown on the scales, the number of States that could take on the 90 per cent financing task with relative tax ease probably drops to the 16 States that in theory at least could do the job with a tax increase of less than 5 per cent. It should also be noted that 20 States are quite far removed from the goal of 90 per cent financing even if the Federal Government took over all of the welfare financing responsibility and enacted the Admini-

Table 4-3

PERCENTAGE INCREASE IN 1969 STATE TAXES REQUIRED FOR STATE FINANCING OF 90% OF SCHOOL COSTS ASSUMING THAT ALL FEDERAL AID (WELFARE RELIEF AND REVENUE SHARING) WAS EARMARKED FOR SCHOOLS

State	% Increase in FY 1969 Taxes Required to Expand State Financing to 90% School Cost	State Portion of Welfare Costs as % of FY 69 Taxes 1/	% Increase in State Taxes Required With Federal Welfare Takeover	State Portion of Revenue Sharing as % of FY 69 State Taxes 2/	% Increase in State Taxes Required with Welfare Takeover & Revenue Sharing
United States, Total	31.3	9.9	21.4	6.3	15.1
Alabama	7.5	6.9	0.6	8.8	(-8.2)
Alaska	20.9	9.5	11.4	8.1	3.3
Arizona	18.2	3.1	15.1	7.5	7.6
Arkansas	16.5	6.9	9.6	8.5	1.1
California	32.3	15.7	16.6	5.2	11.4
Colorado	46.9	12.1	34.8	7.3	27.5
Connecticut	52.7	16.4	36.3	5.2	31.1
Delaware	8.3	7.7	0.6	6.2	(-5.6)
Florida	9.0	2.7	6.3	6.9	(-0.6)
Georgia	16.5	5.5	11.0	7.3	3.7
Hawaii	(-3.9)	7.4	(-11.3)	6.0	(-17.3)
Idaho	25.3	5.2	20.1	7.9	12.2
Illinois	49.3	8.3	41.0	5.1	35.9
Indiana	43.2	3.3	39.9	6.8	33.1
Iowa	34.1	7.9	26.2	6.5	19.7
Kansas	43.0	8.8	34.2	6.6	27.6
Kentucky	13.6	5.7	7.9	7.9	0.0
Louisiana	15.1	8.8	6.3	8.8	(-2.5)
Maine	40.6	9.6	31.0	7.9	23.1
Maryland	44.7	10.8	33.9	5.7	28.2
Massachusetts	39.6	27.2	12.4	5.4	7.0
Michigan	31.2	9.9	21.3	5.7	15.6
Minnesota	40.3	4.6	35.7	6.7	29.0
Mississippi	4.5	5.9	(-1.4)	9.7	(-11.1)
Missouri	42.8	11.7	36.1	6.3	24.8

Table 4-3

PERCENTAGE INCREASE IN 1969 STATE TAXES REQUIRED FOR STATE FINANCING OF 90% OF SCHOOL COSTS ASSUMING THAT ALL FEDERAL AID (WELFARE RELIEF AND REVENUE SHARING) WAS EARMARKED FOR SCHOOLS (Continued).

State	% Increase in FY 1969 Taxes Required to Expand State Financing to 90% School Cost	State Portion of Welfare Costs as % of FY 69 Taxes 1/	% Increase in State Taxes Required With Federal Welfare Takeover	State Portion of Revenue Sharing as % of FY 69 State Taxes 2/	% Increase in State Taxes Required with Welfare Takeover & Revenue Sharing
Montana	49.1	6.3	42.8	8.0	34.8
Nebraska	70.3	5.8	64.5	7.5	57.0
Nevada	20.9	3.3	17.6	5.6	12.0
New Hampshire	79.1	6.9	72.2	7.7	64.5
New Jersey	63.5	9.5	54.0	5.4	48.6
New Mexico	4.7	6.8	(-2.1)	9.6	(-11.7)
New York	23.5	13.7	9.8	4.9	4.9
North Carolina	2.3	2.1	0.2	7.7	(-7.5)
North Dakota	45.4	6.7	38.7	11.1	27.6
Ohio	55.9	9.8	46.1	6.2	39.9
Oklahoma	23.0	11.4	11.6	8.4	3.2
Oregon	60.2	7.7	52.5	7.1	45.4
Pennsylvania	31.2	9.7	21.5	5.8	15.7
Rhode Island	26.5	19.8	6.7	6.2	0.5
South Carolina	13.6	2.6	11.0	8.6	2.4
South Dakota	89.1	6.2	82.9	9.1	73.8
Tennessee	23.4	4.1	19.3	7.7	11.6
Texas	32.6	4.7	27.9	7.4	20.5
Utah	31.9	6.5	25.4	8.4	17.0
Vermont	25.9	10.3	15.6	7.4	8.2
Virginia	23.9	2.9	21.0	7.0	14.0
Washington	21.2	9.7	11.5	5.9	5.6
West Virginia	15.9	6.9	9.0	8.2	0.8
Wisconsin	39.5	6.6	32.9	6.5	26.4
Wyoming	39.3	2.8	36.5	8.2	28.3

1/ For fiscal year 1969, $4138.8 billion.

2/ Based on Administration's proposal (S. 680) that earmarks $2635.2 billion for the States.

Source: ACIR staff estimates.

stration's revenue sharing proposal. For this "far out" group of 20 States the necessary tax increase ranges from 23 per cent for Maine to 74 per cent increase for South Dakota.

This indirect Federal approach for helping the States take over education also presents two major legislative problems. First, take over of welfare will call for such massive increases in Federal outlays as to virtually dictate that it be phased in over several years. This, therefore, greatly complicates any effort to synchronize State take over of education with Federal assumption of welfare responsibility. The current lack of agreement as to how States will be treated under a general Federal aid bill also complicates any attempt to calculate the fiscal effects of intergovernmental transfer of funds and responsibilities.

Evaluation of the Federal Role.

As noted earlier, prospects appear rather bleak for creating a State tax system strong enough to finance most of the cost of public education unless the States get help from the outside.

Some help may be on the way as Serrano-type litigation unfolds and the courts mandate actions that of necessity will strengthen the State-local fiscal system. This, however, is by no means a certainty and in the final analysis the basic decisions will have to be made in both the State and Federal legislative halls.

Unless the Federal Government abandons its present "hands off" policy with respect to State use of the income tax and full State funding of education, progress on both fronts is apt to be slow and halting.

The Federal Government could encourage far more effective State use of the income tax if it provided either a tax credit or incentive grant. By the same token the Federal Government could accelerate the move toward full State funding of education if it also provided special assistance to those States that are willing to take on this responsibility.

APPENDICES

A. Major Recommendations of State Tax Studies, 1968-1971

B. Bibliography of Selected Materials on State and Local Finance

C. Constitutional and Statutory Limitations on State and Local Borrowing and Property Taxation

D. Appendix Tables

E. The Rough Road to Tax Reform: The Ohio Experience

APPENDIX A

Major Recommendations of State Tax Studies, 1968-1971

California	Advisory Commission on Tax Reform, 1969 --10% of State income tax distributed on a per capita basis to local governments to relieve property taxpayers; sales tax on utilities and selected services; Statewide property tax for public schools; increased school foundation program; withholding and estimates system; federal-type personal exemption in addition to current tax credit for dependents.
California	Governor's Commission on Education Reform, 1971 --Statewide property tax to finance a significant portion of school costs.
Colorado	Committee on Fiscal Policy, 1969 --consitutional amendment for Statewide, State-collected sales and cigarette taxes for localities; broadened sales tax base to include services; more State funds for schools; State financing of court costs; disallow deduction of federal income tax payment for State income tax purposes.
Connecticut	State Revenue Task Force, 1971 --piggyback income tax of not more than 20% of federal income tax, except that capital gains be taxed as ordinary income and interest on State and local bonds other than those of Connecticut be taxed; declining credit for dependents; broadened sales tax base; repeal property tax exemptions for veterans except those disabled; when feasible, replace other property tax exemptions with a system of direct payments; uniform Statewide assessment ratio; authorize local charges in lieu of property taxes on eleemosynary institutions.
Illinois	Governor's Revenue Study Committee, 1968-69 --flat-rate income tax on both individuals and corporations; add selected services to sales tax base.
Indiana	School Finance Study for Commission on State Tax and Financing Policy, 1970 --State assumption of costs of school operation, maintaining local control, funded by changing present flat-rate income tax to a graduated tax for both individuals and corporations.
Indiana	Commission on State Tax and Financing Policy, 1968 --increase State share of school costs to 50%;adopt much more equalizing plan of school aid distribution; income tax credit declining with income for property taxes paid; eliminate property tax on inventories and intangibles tax; replace personal property tax on motor vehicles with an excise tax.
Iowa	Taxation Study Committee of the General Assembly, 1971 --increase progressivity of income tax; adopt sales tax credit; impose 1% tax on interest and dividends; adopt income tax credits for property tax paid by elderly; replace personal property tax with tax on AGI of all businesses and professions; provide State aid to finance major share of welfare programs; change State aid to schools from current equalization aid scheme to foundation grant program with State funding initially at 80% of average per-pupil expenditure; require local funding for schools to be based on both property tax and a local income tax.

Massachusetts	Master Tax Plan Commission, 1970 --percentage of total State-local revenue to be raised from various sources to be specified by law, with property taxes reduced to 42% and personal income tax and sales tax set at 21% each; a revenue policy commission to alter tax rates so as to maintain percentages; full State funding for some percentage, say 80%, of total local government expenditures; State property tax; broadened bases for personal income tax and for sales tax; corporate income tax subsituted for tax on deposits, tangibles, and premiums.
Minnesota	Report to Governor's Property Tax Study Advisory Committee from the Director of the Minnesota Property Tax Study, 1970 --eliminate property classification and replace with direct subsidies to those taxpayers deserving preferential treatment; authorize local piggy-back income or sales taxes; shift all welfare costs to State; gross earnings tax in lieu of property tax on public utilities; Statewide property tax to finance 50% of school operating costs.
Montana	Fiscal Affairs Study, 1970 --makes no recommendations; gives only facts and analysis.
New Hampshire	Citizens' Task Force, Subcommittee on Revenues, Expenditures, and Tax Structure, 1969 --personal and corporate income tax at flat-rate with personal exemptions; general sales tax if the income tax does not provide sufficient revenue, with an income tax credit for sales tax paid on necessities; possible use of tax credits for property tax paid.
New Jersey	Tax Policy Committee --in the works.
North Carolina	Tax Study Commission, 1968 --authorize sales and income taxes for local governments; adopt federal personal exemptions system for income tax; require central assessment of certain public utilities.
Ohio	Citizens Task Force on Tax Reform, 1971 --personal income tax with moderately graduated rates on AGI combined with tax credit for each dependent, tax credit for property tax paid; flat-rate business income tax on both corporations and unincorporated businesses, again with a credit for property tax; services included in sales tax base; State collection of local income taxes.
Pennsylvania	Governor's Tax Study and Revision Commission, Final Long Range Report, 1968 --personal income tax at flat-rate on federal taxable income; corporate income tax.
Rhode Island	Divison of Taxation Digest of Annual Reports, 1966-67 --tobacco products tax of 20% of manufacturer's invoice cost to wholesaler; broadened sales tax base; tax on yield from intangibles to replace ad valorem tax on intangibles.

South Dakota	Governor's Council for Tax Decisions --still in the works.
Texas	Committee on State and Local Tax Policy, 1970 --fact finding only; no recommendations.
Washington	Tax Advisory Council, Second Report, 1968 --constitutional amendment to permit single-rate net income tax; ceiling on property tax rates; partial replacement of property tax revenue with income tax revenue; exemption of food and prescription drugs from sales tax; reduction of sales tax rate; replacement of business and occupation tax with corporate income tax.
Washington	Department of Revenue Study of Tax Exemptions, 1971 --periodic review of exemptions; inclusion of exemptions in the budget; elimination of selected exemptions and State audit of them; use of direct grants instead of new exemptions whenever possible.
Wisconsin	Task Force on Local Government Finance and Organization, 1969 --improve property tax administration; continue school aids basically as they are now; simplify the distribution formula for tax-sharing with local governments.

APPENDIX B

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APPENDIX C

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON STATE AND LOCAL BORROWING and PROPERTY TAXATION

Little progress has been made in the last decade--since ACIR first studied the subject in 1961 and 1962--to ease the restrictive provisions concerning local borrowing and property tax powers. With a few isolated exceptions, such as the recent elimination of constitutional mill rate limits on local borrowing in Colorado and the raising of mill rate limits on local borrowing and property taxation in a few States, the highly restrictive and complex situation still exists. Detailed information on these limitations is presented in Tables C-2 through C-4.

Illinois and Pennsylvania both eased their constitutional limitations on State borrowing recently--Illinois in its newly adopted constitution and Pennsylvania in its revision of its constitution's taxation and finance article. By and large, however, the generally restrictive constitutional limitations on State borrowing remain, as is shown in Table C-1.

State	Legislative Borrowing Power Limits: No Limitations	For Casual Deficits or Extraordinary Expenses Only	For Any or Other Purpose	Referendum Required To Create Debt	Referendum Required To Exceed Limit	Exceptions to Limits: Limit May Be Exceeded: For Refunding	For Defense of State or Nation	For Other Purposes	Per Capita Total Debt 1970	Stat
United States									$208	
1 Alabama		$3,000,000[1]	[1]	[1]		x	x[2]		216	1
2 Alaska			[3]	x		x	x		736	2
3 Arizona		350,000					x		51	3
4 Arkansas				x		x			52	4
5 California			$300,000		x[4]		x		267	5
6 Colorado		100,000	50,000		x[5]		x	x[6]	56	6
7 Connecticut	x		[7]						633	7
8 Delaware	x[8]					x	x		768	8
9 Florida			[9]	x[4]		x	x		131	9
10 Georgia		500,000	3,500,000[10]						190	10
11 Hawaii			[11]			x	x		686	11
12 Idaho			2,000,000		x[4]		x		46	12
13 Illinois	x[12]	[13]		x[14]					118	13
14 Indiana		[15]					x		112	14
15 Iowa		250,000			x[4]		x		35	15
16 Kansas			1,000,000		x[4]		x		99	16
17 Kentucky		500,000			x[4]	x	x		380	17
18 Louisiana	x[2]						x		237	18
19 Maine		[16]	2,000,000		x		x	x[17]	234	19
20 Maryland	x[3,4]						x	x[18]	292	20
21 Massachusetts	x[2]						x	x[18]	327	21
22 Michigan		[19]		x					108	22
23 Minnesota	x[12]								122	23
24 Mississippi			[20]						205	24
25 Missouri		1,000,000			x[4]	x			30	25

See footnotes at end of table.

TABLE C-1 -- STATE CONSTITUTIONAL LIMITATIONS ON STATE BORROWING, 1971 (CONT'D)

State	Legislative Borrowing Power Limits: No Limitations	For Casual Deficits or Extraordinary Expenses Only	For Any or Other Purpose	Referendum Required To Create Debt	Referendum Required To Exceed Limit	Exceptions to Limits: Limit May be Exceeded: For Refunding	For Defense of State or Nation	For Other Purposes	Per Capita Total State Debt 1970	
26 Montana			$100,000		x4/		x		$118	26
27 Nebraska		$100,000					x		50	27
28 Nevada			21/				x		70	28
29 New Hampshire	x3/								214	29
30 New Jersey			22/		x4/		x		246	30
31 New Mexico		200,000	21/		x4/	x	x		119	31
32 New York				x4/		x	x	x18/	406	32
33 North Carolina		15/	23/		x	x	x	x18/	107	33
34 North Dakota			2,000,0004/				x	x	60	34
35 Ohio		750,000				x	x		153	35
36 Oklahoma		500,000		x4/		x	x		289	36
37 Oregon			50,00024/				x	x25,21/	330	37
38 Pennsylvania				x26/		x	x	x18/	273	38
39 Rhode Island			50,000		x		x	x18/	393	39
40 South Carolina		15/		x27,4/					135	40
41 South Dakota		100,000	21,2/			x	x		45	41
42 Tennessee	x3/								106	42
43 Texas		200,000				x	x		90	43
44 Utah			21/				x		97	44
45 Vermont	x3/								496	45
46 Virginia		28/	28/	x28/			x		70	46
47 Washington		400,000		x29,4/			x		211	47
48 West Virginia		15/				x	x		318	48
49 Wisconsin			21/				x		121	49
50 Wyoming			21/		x30/		x		154	50

See footnotes at end of table.

TABLE C-1 -- STATE CONSTITUTIONAL LIMITATIONS ON STATE BORROWING (CONT'D)

1/ Governor authorizes debt up to $300,000. Specific bond issues are authorized by Constitutional amendment.
2/ Requires approval by two-thirds of (each house of) legislature.
3/ Requires approval by simple legislative majority.
4/ Provision must be made for payment of interest and/or principal at time of borrowing.
5/ Refers solely to receipts from 3-mill levy against State-assessed valuation for erection of State buildings.
6/ May create additional debt for purposes of highway construction and improvement.
7/ Debt is not to exceed 4-1/2 times the total tax receipts of the State during the previous fiscal year (statutory).
8/ Requires approval by three-fourths of legislature.
9/ Limitation in terms of total tax revenue.
10/ Solely for the payment of State public school teachers.
11/ Bonds may be issued by the State when authorized by two-thirds vote of the members to which each house of the legislature is entitled, provided that such bonds at the time of authorization would not cause the total of state indebtedness to exceed a sum equal to three and one-half times the annual average of the general fund revenues of the State in the three fiscal years immediately preceding the session of the legislature authorizing such issuance.
12/ Requires approval of three-fifths of legislature.
13/ In an amount not to exceed 15% of State appropriations for the fiscal year to meet deficits caused by emergencies or failures of revenue; such debt to be repaid within one year of the date it is incurred.
14/ Alternative to three-fifths approval of the legislature.
15/ May borrow for this purpose but no maximum specified.
16/ Temporary loans may not exceed 10% of the amount appropriated for general and highway fund purposes or 1% of the total valuation of the State of Maine, whichever is less.
17/ The legislature is authorized to insure debt for specified purposes (mortgage loans for industrial, manufacturing, fishing and agricultural enterprises -- up to $80 million, and for recreation projects -- up to $17 million; and revenue bonds of the Maine School Building Authority -- up to $25 million) and may authorize the issuance of State bonds if it becomes necessary to make payments on such insured debt.
18/ For tax or revenue anticipation loans.
19/ Short-term tax anticipation borrowing limited to 15% of undedicated revenue received by the State during the preceding fiscal year.
20/ Bonded indebtedness cannot be in excess of 1-1/2 times the sum of all revenue collected in the State during any one of the four preceding fiscal years.
21/ Limitation in terms of percentage of assessed valuation of property.
22/ Limitation in terms of percentage of total annual appropriation.
23/ Creation of debt limited to two-thirds the amount by which the State's outstanding indebtedness has been reduced during the preceding biennium.
24/ Debt created for rehabilitation and acquisition of forest lands may not exceed 3/16 of 1 percent of the cash value of all State property taxed on ad valorem basis.
25/ For road construction and maintenance.
26/ Referendum not required for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed 1 3/4 times the average of the annual tax revenues deposited in the previous five years.

27/ Referendum not required for debt created for "ordinary purposes of State government." Any referendum requires two-thirds approval.
28/ Amount authorized for any biennium limited to 10% of the annual average of general revenue for the three fiscal years preceding incurrence of such debt. Up to 1/2 of the limit (1/20 of average general fund revenue) may be authorized without referendum, provided debt is approved by 2/3 majority of each house of the legislature. Self-liquidating debt, with backing of full faith and credit of the State, may be issued without referendum if approved by 2/3 majority of each house of the legislature, subject to limitation of the annual average of general revenue for the three fiscal years preceding incurrence of such debt.
29/ Referendum required for all purposes other than casual deficits, extraordinary expenditures, and other special exceptions.
30/ Referendum required for creation of debt in excess of amount of taxes for current fiscal year.

Source: Advisory Commission on Intergovernmental Relations.

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Alabama:					
Counties	C-S	3.5 to 5	LAV	None	[a]Many exceptions are provided by constitutional amendments and statutes applicable to individual local governments.
Municipalities	C-S	20[a]	LAV	do	
Alaska		No limitations	No limitations		
Arizona:					
Counties	C	4	EAV	M a	[a]But in no case to exceed 10 percent of equalized assessed valuation.
Municipalities	C	4	EAV	M b	[b]Up to 15 percent additional for water supply, sewers, and lighting.
School districts	C	4	EAV	M a	
Arkansas:					
Counties		No limitations[a]	No limitations[a]		[a]Limited only as to the maximum allowable property tax rate for debt service.
Municipalities		do[a]	do[a]		[b]By permission of State Board of education limit may be raised to not exceed 13 percent of total assessed valuation.
School districts	S	15	LAV	(b)	
California:					
Counties	S	5a	LAV	None	[a]May go to 15 percent for water and road purposes.
Municipalities[b]	S	15	LAV	do	[b] Chartered municipalities may establish their own limits. [c] 5 percent for elementary, high school, and community college districts; 10 percent for unified districts not maintaining a community college; 10 percent f for high school districts that maintain a community college; 15 percent for unified districts with community college.
School districts	S	5 to 15[c]	LAV	do	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Colorado:					[a]Constitutional limits repealed, effective Jan. 1, 1972.
Counties	C-S[a]	0.6-1.2[b]	EAV	---do---	[b]0.6 percent for counties having over $5,000,000 assessed valuation; 1.2 percent for counties with less than $5,000,000 assessed valuation.
Municipalities[c]	C [a]	3[d]	EAV	---do---	
School districts	S	No limitations	No limitations		[c]Chartered and home rule municipalities may establish their own limits. [d]Water boards are excluded from limit.
Connecticut		No rate limitations[a]	No rate limitations[a]		[a]Debt restricted to 2 1/4 times the latest tax receipts. This limit can be increased for certain purposes (e.g. sewers, school building projects and urban renewal projects). Certain kinds of debt (e.g. for water supply, gas, electric and transit) are excluded from this limit.
Delaware:					
New Castle County[a]	S	3	LAV	None	[a]Requires 75% approval of County Council.
Sussex County[b]	S	12	LAV	None	[b]Requires 80% approval of County Council.
Kent County		No limitations			
Florida:					
Counties		---do---	---do---		
Municipalities	S	10[a]	LAV	None	[a]May be modified by individual charters.
School districts		No limitations	No limitations		
Georgia:					
Counties	C	7	LAV	None[a]	[a]Up to 3 percent additional debt may be authorized by general assembly, subject to approval by a majority of voters, but such additional debt must be retired in 5 years.
Municipalities	C	7	LAV	None[a]	
School districts	C	7	LAV	None	
Hawaii:					
Counties	C-S	15	NV	None	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Idaho:					[a]Debt incurred in any year cannot exceed revenue for fiscal year without approval by a 2/3 majority of the voters on the issue.
Counties	--------	No limitations[a]	No limitations[a]	----------	
Municipalities	S	15[a]-------	MV-------	None-------	
School districts		No limitations[a]	No limitations[a]	----------	
Illinois:					
Counties	C-S	5--------	EAV------	None-------	
Municipalities	C-S	5--------	EAV------	---do------	
School districts	C-S	5--------	EAV------	---do------	
Townships	C-S	5--------	EAV------	---do------	
Indiana:					
Counties	C	2--------	LAV------	---do------	
Municipalities	C	2--------	LAV------	---do------	
School districts	C	2--------	LAV------	---do------	
Townships	C	2--------	LAV------	---do------	
Iowa:					[a]By judicial interpretation.
Counties	C	5--------	MV[a]------	---do------	
Municipalities	C	5--------	MV[a]------	---do------	
School districts	C	5--------	MV[a]------	---do------	
Kansas:					[a]Debt incurred for hospitals, and for other specified purposes is excluded from limit. [b]Basic rates are: 8 percent for 1st class cities, except such cities with less than 60,000 population for which there is no rate limit; 15 percent for 2d- and 3d-class cities; and 20 percent for certain 3d-class cities (population over 2,600 in county with population between 8,000 and 40,000). These rates can be raised to a percentage that is specified for each class for bonds payable from special assessments. [c]10 percent for common school districts in counties with population of 125,000 to 200,000. [d]With approval of State Board of Education (subject to subsequent election to vote on the question of issuing the increased amount of bonds).
Counties	S	1[a]-------	EAV------	---do------	
Municipalities	S	8 to 20[b]--	EAV------	---do------	
School districts	S	7[c]-------	EAV------	(d)--------	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Kentucky:					[a]Plus 5 percent for roads
Counties	C	2[a]	MV	None[b]	[b]Unless emergency public health or safety should require.
Municipalities	C	3 to 10[c]	MV	---do	[c]1st- and 2d-class cities, and 3i-class cities with more than 15,000 population, 10 percent; 3d-class cities with less than 15,000 population, and 4th-class cities and towns, 5 percent; 5th- and 6th-class cities and towns, 3 percent.
School districts	C	2	MV	---do	
Louisiana:					
Parishes (counties)	C	10	LAV	None	
Municipalities	C	10	LAV	---do	
School districts	C	25	LAV	---do	
Maine:					
Counties		No limitations	No limitations		
Municipalities	C	7.5	LAV	None	
Maryland:					
Counties (chartered)	S	15	LAV	(a)	A maximum of 25 percent of local assessed valuation is allowed for sewerage and sanitation treatment facilities bonds.
Counties (nonchartered)		No limitations	No limitations		
Municipalities		---do	---do		
Massachusetts:					[a]Each county bond issue is subject to State legislative authorization.
Counties		No rate limitations[a]	No rate limitations[a]		[b]Debt incurred for certain purposes is expected, in some cases with separate rate limits (for example, 10 percent for water supply).
Municipalities	S	5[b]	EAV	(c)	[c]An additional 5 percent for towns and 2 1/2 percent for cities with approval of the emergency finance board.
School districts	S	2 1/2[b]	EAV	(c)	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Michigan:					
Counties	C	10	EAV	None	[a]Plus 3/8 of 1% in home rule cities and 1/4 of 1% in fourth class cities for relief of victims of fire, flood or other disaster.
Municipalities	S	10	EAV	---do---	
School districts	S	15	EAV	---do---	
Minnesota:					
Counties	S	20	EAV	---do---	[a]Limitation does not apply to 1st-class cities (St. Paul, Minneapolis, Duluth). [b]Where at least 20 percent of the local tax base consists of railroad property (which is exempt from local taxation) special provisions apply.
Municipalities[a]	S	20	EAV	---do---	
Townships	S	20	EAV	---do---	
School districts	S	10	MV[b]	M	
Mississippi:					
Counties	S	10[a]	LAV	None	[a]15 percent for debt incurred to repair flood damage to roads and bridges. [b]15 percent for debt incurred for water, sewer, gas electric, and special improvements.
Municipalities	S	10[b]	LAV	---do---	
School districts	S	15	LAV	---do---	
Missouri:					
Counties	C-S	5	EAV	2/3[a]	[a]Additional 5 percent. [b]Cities may incur an additional 5 percent for streets and sanitation and/or for waterworks and electric plants, but total debt outstanding cannot exceed 20 percent. In addition, cities, incorporated towns and villages with less than 400,000 population may issue industrial development bonds up to 10 percent.
Municipalities	C-S	5	EAV	2/3[b]	
School districts	C-S	10	EAV	None	
Montana:					
Counties	C	5	EAV	---do---	[a]Additional 5 percent for water and sewer debt only (statutory provision).
Municipalities	C-S	5	EAV	M[a]	
School districts	C	5	EAV	None	
Nebraska	-------	No limitations	No limitations	-------	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Nevada:					
Counties	S	10	LAV	None	[a]Some variation authorized.
Municipalities	S	10[a]	LAV	---do	
School districts	S	15	LAV	---do	
New Hampshire:					[a]10 percent for cooperative school districts.
Counties	S	2	LAV	None	
Municipalities	S	1.75	EAV	---do	
School districts	S	7[a]	EAV	---do	
New Jersey:					[a]Approval of State local finance board. [b]8 percent in cities of first class with population over 350,000.
Counties	S	2	EAV	(a)	
Municipalities	S	3.5	EAV	(a)	
School districts	S	4[b]	EAV	(a)	
New Mexico:					
Counties	C	4	LAV	None	
Municipalities	C	4	LAV	---do	
School districts	C	6	LAV	---do	
New York:					[a]Excludes the 5 counties comprising New York City. See[e] [b]Except Nassau County where the limit is 10 percent. [c]10 percent for New York City, and 9 percent for other cities over 125,000 population, including debt for school purposes. The 7-percent limit for all other municipalities excludes school debt. [d]5 percent for school districts in cities under 125,000; 10 percent for noncity school districts with assessed valuation over $100,000. No limit for noncity school districts with assessed valuation under $100,000. [e]Subject to approval by the State board of regents and/or the State comptroller.
Counties[a]	C	7[b]	MV	None	
Municipalities	C	7[c]	MV	---do	
School districts	C-S	5 to 10[d]	MV	3/5[a]	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

States and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
North Carolina:					[a]5 percent for school purposes (8 percent where county has assumed debt for all school units within county); 5 percent for nonschool purposes and community colleges. [b]An additional limitation is imposed by the constitution: Voter approval is required for bonds issued if (1) the amount of the issue exceeds 2/3 of the net debt reduction for the preceding fiscal year or (2) the purpose of the issue is for "non-necessary" expense (i.e., airports, hospitals,etc.). All local bond issues are subject to approval of the State local government commission.
Counties	C-S	5 to 10[a b]	LAV	M[b]	
Municipalities	C-S	8[b]	LAV	M[b]	
North Dakota:					[a]Additional debt may be incurred for water-works, up to 4 percent. [b]Additional 3 percent [c]Additional 5 percent
Counties	C	5	EAV	None	
Cities	C	5[a]	EAV	2/3[b]	
School districts	C	5	EAV	M[c]	
Ohio:					[a]Net indebtedness shall never exceed 3 percent of first $100,000,000 of taxable value plus 1 1/2 percent of taxable value in excess of $100,000,000 and not in excess of $300,000,000, plus 2 1/2 percent of taxable value in excess of $300,000,000. [b]Subject to voter approval. Lower limits are set without voter approval. [c]"Special needs" districts may exceed limit if approved by the State Superintendent of Public Instruction.
Counties	S	(a)	LAV	None	
Municipalities	S	10b	LAV	---do	
Townships	S	2	LAV	---do	
School districts	S	9b	LAV	(c)	
Oklahoma:					[a]Amount incurred in any year may not exceed revenue for the year, except by a 3/5 majority vote. [b]Additional 5 percent.
Counties	C	5[a]	LAV	---do	
Municipalities	C	5[a]	LAV	---do	
School districts	C-S	5[a]	LAV	3/5[b]	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit[3]	Remarks
Oregon:					
Counties	S	2	MV	None	[a]0.55 percent for grades 1-8; 0.75 percent for grades 9-12; 1.5 percent for community college or area education district.
Municipalities	S	3	MV	---do	
School districts	S	(a)	MV	---do	
Pennsylvania:					
Counties	S	15[a]	LAV	(a)	[a]Up to 5 percent without referendum; any debt incurred beyond the 5 percent limit, up to 15 percent, requires a simple majority approval of the electorate. [b]For Philadelphia, the upper limit is 13.5 percent with up to 3 percent without referendum (constitutional provision).
Municipalities	S	15[a] [b]	LAV	(a)	
School districts	S	15[a]	LAV	(a)	
Rhode Island:					
Municipalities	S	3	LAV	None	
South Carolina:					
Counties	C	8	LAV	None	[a]Where 2 or more municipalities or school districts overlap, aggregate limit is 15 percent.
Municipalities	C	8[a]	LAV	---do	
School districts	C	8[a]	LAV	---do	
South Dakota:					
Counties	C	5	EAV	M[a]	[a]Up to an additional 10 percent (18 percent for for cities over 8,000 population) for specified purposes.
Municipalities	C	5	EAV	M[a]	
School districts	C	10	EAV	M[a]	
Tennessee	--------	No limitations[a]	No limitations[a]	----------	[a]Except that industrial building bonds are limited to 10 percent of assessed valuation, and require a 3/4 majority in referendum.
Texas:					
Counties	----------	No limitations[a]	No limitations[a]	----------	[a]Inclusion of debt service in property tax limits has the effect of limiting debt incurrence as well.
Municipalities	----------	---do---	---do---	----------	
School districts	S	10[b]	LAV	None	[b]0.2 percent for junior college districts.

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (cont'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit	Remarks
Utah:					
Counties	C	2[a]	MV[b]	None	[a]Debt incurred in any 1 year may not exceed amount of taxes raised for the year without a simple majority approval of the electorate (property taxpayers). [b]By judicial interpretation. [c]1st and 2d class cities are granted an additional 4 percent, 3d class cities and towns an additional 8 percent debt for construction of water, lights, sewer facilities.
Municipalities	C	4[a]	MV[b]	(c)	
School districts	C	4[a]	MV[b]	None	
Vermont:					
Municipalities	S	10[a]	LAV	---do	[a]The statutory limit is "10 times the grand list of the municipal corporation." The "grand list" is 1 percent of the locally assessed valuation.
Virginia:					
Counties		No limitations	No limitations		[a]Including counties that elect to be treated as cities.
Municipalities[a]	C-S	18	LAV	None	
Washington:					
Counties	C	5[a]	LAV	(a)	[a]Debt incurrence that would bring total above 1.5 percent subject to approval by 60 percent majority vote, but in no case may it exceed 5 percent. However, an additional 5 percent is authorized for municipally owned utilities. [b]Debt incurrence that would bring total above 1.5 percent subject to approval by 60 percent majority vote, but in no case may it exceed 5 percent. However, a constitutional amendment authorizes an additional 5 percent for "capital outlays."
Municipalities	C	5[a]	LAV	(a)	
School districts	C	10[b]	LAV	(b)	
West Virginia:					
Counties	C-S	5	LAV	None	
Municipalities	C-S	5	LAV	---do	
School districts	C-S	5	LAV	---do	

TABLE C-2 -- STATE CONSTITUTIONAL AND STATUTORY LIMITATIONS ON LOCAL GOVERNMENT POWER TO ISSUE GENERAL OBLIGATION LONG-TERM DEBT, 1971 (concl'd)

State and types of local government	Citation[1]	Rate Limit: Percent	Rate Limit: Applied against[2]	Provisions for exceeding limit	Remarks
Wisconsin:					
Counties	C-S	5[a]	EAV	do	[a]No more than 4 percent for county buildings or 1 percent (by sole action of the county board) for highways.
Municipalities	C-S	5[b]	EAV	(b)	[b]Municipalities operating schools, except Milwaukee, may incur additional 10 percent for school purposes.
School districts	C-S	5[c]	EAV	(c)	[c]10 percent for school districts offering no less than grades 1-12 and which are eligible for highest level of State aid ("integrated" districts).
Wyoming:					
Counties	C-S	2	EAV	None	[a]Additional 4 percent authorized for sewer construction.
Municipalities	C	2[a]	EAV	(a)	
School districts	C	10	EAV	None	

[1]The citation is either the State 's constitution (C), statutes(S), or both (C-S).

[2]Percentage debt limitations are generally applied against property values, as follows: Full or market value (MV); locally established assessed value, or State established assessed value in the case of State assessed property such as utilities (LAV); or State equalized assessed value (EAV).

[3]Other than by amendment of the constitution or statutes. A simple majority (a favorable majority of 50 percent plus one of all votes subject to counting on the question) is indicated by "M;" where more than a simple favorable majority is required, the required percentage is entered.

Note.-- This table deals only with limitations that affect generally the amount of general obligation debt that counties, municipalities, and school districts can issue. In a number of States general obligation debt issued for specified purposes is excluded from the general rate limitations either by constitutional or statutory provisions. In addition, specific debt limitations are often imposed upon special districts. No attempt has been made to treat the exceptions or the special district limitations because of their great variety. Also excluded from this table are provisions that set maximum interest rates or time periods for which bonds may be issued.

Source: Advisory Commission on Intergovernmental Relations

TABLE C-3 -- STATE CONSTITUTIONAL AND STATUTORY REFERENDUM REQUIREMENTS FOR LOCAL GOVERNMENT ISSUANCE OF GENERAL OBLIGATION LONG-TERM DEBT, 1971

State	Citation[1]	Referendum required	Approval[2]	Remarks
Alabama	C	X	M	
Alaska	C	X	M	
Arizona	C	X	a M	a Only for debt in excess of the 4-percent limit.
Arkansas	C	X	M	
California	C-S	X	2/3	
Colorado	C-S	X	M	
Connecticut	----------	None required	---------	
Delaware	S	X	M	
Florida	C-S	X	M	
Georgia	C	X	M	
Hawaii	----------	None required	---------	
Idaho	C-S	X	2/3	
Illinois	S	X	M	
Indiana	----------	None required	---------	
Iowa	S	X	2/3	
Kansas	S	X	M	
Kentucky	C-S	X	2/3	
Louisiana	C	X	M	
Maine [a]	S	X	M	a Applies to municipalities only.
Maryland [a]	C	X	M	a Do.
Massachusetts	----------	None required [a]	---------	a Except for debt issued by regional school districts in which case a referendum may be called by the towns comprising the district; in this event, simple majority approval is required.
Michigan	S	X	M	
Minnesota [a]	S	X	M	a Does not apply to Minneapolis, St. Paul, and Duluth.
Mississippi	S	X [a]	3/5	a Only on petition of 20 percent of the electors for county bonds; 10 percent or 1,500, whichever is less for municipal bonds.
Missouri	C	X	2/3	
Montana	S	X [a]	a M	a For municipalities, applies to debt issued for water, sewer, and gas supply; for school districts applies only on a petition of 20 percent of voters.
Nebraska	C-S	X	a M	a 55 percent for school districts.
Nevada	S	X	M	
New Hampshire [a]	S	X	2/3	a Not applicable to cities or counties
New Jersey	S	None required [a]	---------	a Except for debt issued by certain classes of school districts (simple majority).
New Mexico	C	X	M	
New York	S	None required [a]	---------	a Except for debt issued by certain classes of school districts (simple majority).

See footnotes at end of table.

TABLE C-3 -- STATE CONSTITUTIONAL AND STATUTORY REFERENDUM REQUIREMENTS FOR LOCAL GOVERNMENT ISSUANCE OF GENERAL OBLIGATION LONG-TERM DEBT, 1971 (concl'd)

State	Citation[1]	Referendum required	Approval[2]	Remarks
North Carolina	C	X	[a] M	[a] Referendum is not required if (1) the amount of issue does not exceed 2/3 of the net debt reduction for the preceding year, or (2) the purpose of the issue is for a "necessary expense."
North Dakota	C-S	X	[a] 2/3	[a] Simple majority for county bonds; 60 percent for municipalities and school districts with over 5,000 population.
Ohio	S	X	M	
Oklahoma	S	X[a]	3/5	[a] Except that in the case of county hospital bonds a referendum is required on petition only (20 percent of the electors).
Oregon	S	X	M	
Pennsylvania	S	X	[a] M	[a] Applies only to debt in excess of statutory limit up to specified maximum.
Rhode Island	S	X	M	
South Carolina [a]	C	X	M	[a] Applies only to debt issued by cities and towns.
South Dakota	C-S	X	3/5	
Tennessee	----------	None required [a]	---------	[a] Except that a 3/4 majority vote is required for issuance of general obligation industrial development bonds.
Texas	S	X	M	
Utah	S	X	M	
Vermont	S	X	M	
Virginia [a]	C	X	M	[a] Applies to county debt only. No referendum required in counties that elect to be treated as cities.
Washington	C	None required [a]	---------	[a] Except for township debt (2/3 majority) and debt issued in excess of constitutional limits (3/5 majority).
West Virginia	C-S	X	3/5	
Wisconsin [a]	S	X	M	[a] Applies only to school districts and townships. No referendum required for county or municipal bond issues.
Wyoming	C-S	X	M	

[1] The citation is either the State's constitution (C), statutes (S), or both (C-S).

[2] A simple majority (a favorable majority of 50 percent plus 1 of all votes subject to counting on the question) is indicated by "M"; where more than a simple favorable majority is required, the required percentage is entered.

Note: This table deals only with referendum requirements that apply generally to general obligation debt issued by cities, counties, and school districts in each State. As in the case of debt limits (see table -) there are numerous exceptions and special provisions, particularly regarding debt issued by special districts and for specific purposes. No attempt has been made to treat those special provisions in this tabulation.

Source: Advisory Commission on Intergovernmental Relations.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Alabama:									[a]Up to 2.5 mills for debt service, plus another 2.5 mills for debt incurred prior to 1875.
Counties	C-S	Specific.	Rate..	5	All	Partial[a].	None	None	[b]But, numerous municipalities have been authorized higher limits by constitutional amendments.
Municipalities	C	...do....	..do..	5[b]	All[c]	...do[d]...	...do...	....do....	[c]Excluding schools.
School districts	C	...do....	..do..	8-9[e]...	All	None	...do...	....do....	[d]An additional 10 mills for servicing debt incurred prior to 1875.
									[e]Subject to voter approval. Additional school district and countywide school levies authorized, subject to voter approval.
Alaska: Municipalities..	[a] S	Overall..	..do..	30	All	All	...do...	....do....	[a]Includes cities and boroughs as well as schools.
Arizona:									[a]But, with some exceptions, the current tax levy may not exceed the previous year's levy by more than 10 percent. Counties with more than $200,000,000 assessed valuation are excluded from this limitation.
Counties	S	Specific.	..do[a].	20[a]	General..	All	Few	Voted	[b]Tax levies are limited to an increase of 10 percent over the previous year's amount, except for certain purposes.
Municipalities	S	...do....	(b)	(b)	....do...	All	Few	....do....	[c]Except for increased enrollment, prior year's budget may not be exceeded by more than 6 percent.
School districts, no rate limitations (but voters must approve budget)	S	...do....	(c)	.....	....do...	None	None	....do....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Arkansas:									
Counties	C-S	Specific.	Rate..	5.....	General..	Partial[a].	Several[b].	None.....	[a]Another 5 and 3 mills may be levied for servicing debt incurred prior to adoption of the tax limitation and its amendments. 1st and 2nd class cities may also levy another 5 mills for servicing debt incurred for specified purposes.
Municipalities	C-S	...do....	..do..	5.....	....do...	....do[a]..	...do....	....do....	[b]Subject to voter approval.
School districts	S	...do....	..do..	18[c]....	All.....	None.....	None.....	(d).....	[c]Community junior college districts, 10 mills.
									[d]An additional voluntary tax in any school district in a city with a population exceeding 40,000 if approved by a majority of the property owners.
California:									
Counties	S	...do....	..do..	(a)....	(a).....	(a).....	(a).....	(a).....	[a]There is no general limitation on counties, but county levies authorized for a few specified purposes are subject to rate limitations. There are no limitations on county debt service levies.
Municipalities	S	...do....	..do..	10.....	General..	All.....	Several..	Voted.....	[b]For any 1 school district, the rate limitation is the sum of the individual rates applicable to the specific grades taught.
School districts	S	...do....	..do..	8-25.5[b]	....do...	All.....	Few.....	....do....	[c]Tax levies, including maximum rates in some cases, are authorized by legislative acts under both general and special laws.
Special districts	S	...do....	..do..	(c)....	(c).....	(c).....	(c).....	(c).....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[2]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Colorado:									
Counties	S	Specific.	Rate..	5-12[a b]	General..	All.....	Few.....	Voted.....	[a]The greater the assessed valuation, the lower the limit. [b]The total levy for all purposes shall not exceed 5 percent more than the aggregate for the previous year, unless the Division of Local Government in the State Department of Local Affairs approves an additional increase. [c]No specific rate limit.
Municipalities	S	...do....	(b)...	(b).....	All.....	All.....	None....	....do.....	
School districts	S	...do....	(b c).	(b).....	All.....	All.....	...do...	....do.....	
Special districts	S	...do....	(b)...	(b).....	All.....	All.....	...do...	....do.....	
Connecticut (no limitations)[a]									[a]Forest or timber land over 25 acres and classified by State forester may not be taxed at more than 10 mills based on full value of land and timber thereon while proper forestry conditions are maintained.
Delaware:									
Counties (Kent only)	S	Specific.	Rate..	5.....	All.....	All.....	None....	Voted.....	
Municipalities, no limitations.	...	.....	.....	.....	.....	.....	.....	.....	
School districts, no limitations.	...	.....	.....	.....	.....	.....	.....	.....	
Florida:									
Counties	C-S	Specific.	Rate..	10[a].....	General..	All.....	Several.	Voted	[a]A county that provides municipal services may levy up to an additional 10 mills.
Municipalities	C-S	...do....	..do..	10.....	All.....	All.....	None....	....do.....	
School districts	C-S	...do....	..do..	10.....	All.....	All.....	...do...	....do.....	
Georgia:									
Counties	S	...do....	..do..	5.....	General..	None.....	Several.	Voted[a].....	[a]An additional 2.5 mill tax can be levied, subject to certain conditions. [b]Excluding home-rule charter cities and numerous specified cities and towns. [c]Excluding independent (city) school districts in existence prior to 1946.
Municipalities[b]	S	...do....	..do..	5.....	....do...	All.....	Few.....	...do[a].....	
School districts[c]	C	...do....	..do..	20.....	All.....	All.....	None....	Voted.....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Hawaii (no limitations).	....	.....	.....	.....	.....	.....	.....	.....	
Idaho:									
Counties.....	S	Specific.	Rate..	13-17[a]..	General..	All.....	Numerous.	None.....	[a]13 mills or a levy sufficient to raise $150,000, whichever is greater, in counties having an assessed valuation of $7,500,000 or more and 17 mills where the assessed valuation is less than $7,500,000.
Municipalities.....	S	...do....	..do..	30.....	....do...	All.....	...do....	....do.....	
School districts.....	S	...do....	..do..	30.....	....do...	All.....	...do....	Voted.....	
Illinois:									
Counties.....	S	...do....	..do..	1-2[a]....	....do[b]...	All[a].....	Numerous.	....do.....	[a]Based upon population size, except for Cook County, the limit is 3.9 mills.
Municipalities.....	S	...do....	..do..	2.50[c]...	....do[b]..	All.....	...do....	....do.....	[b]For "corporate" purposes.
Townships.....	S	...do....	..do..	(d).....	(d).....	All.....	...do....	....do.....	[c]Excluding charter cities (10 mills) and Chicago.
School districts.....	S	...do....	..do..	9-16[e]...	General[b].	All.....	...do....	....do.....	[d]No limitation on the corporate levy, but specific limitations for specific purposes.
Special districts.....	S	...do....	..do..	(f).....	All.....	All.....	None.....	....do.....	[e]For "education," based upon the grade level; except the limit is 17.1 mills for the Chicago school district.
									[f]Limits vary with the type of district.
Indiana:									
*All taxing units.....	S	Overall..	Rate..	12.5-20.[a]	General..	All.....	Few.....	(b).....	*Rate limit ineffective when emergencies are declared locally.
*Municipalities.....	S	Specific.	..do..	12.5[c]...	....do...	All.....	Few.....	(b).....	[a]Property situated outside of cities and towns--12.5 mills; property within cities and towns--20 mills.
School districts.....	S	...do....	..do..	49.5(d).	All.....	All.....	None.....	None.....	[b]By application to State Board of Tax Commissioners.
									[c]Within the overall limits.
									[d]Outside the overall limits.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Iowa:									[a]The greater the assessed valuation, the lower the limit.
Counties	S	...do....	..do..	3-4.5[a]...	General..	All.....	Numerous.	....do.....	[b]Uniform county-wide levy set by statutory formula. 1972 levies frozen at 1971 dollar levels except as authorized by School Budget Review Committee. Area vocational schools and area community colleges are permitted to be established in merged areas (2 or more county school systems or parts thereof) with a 3/4-mill rate limit, plus an additional 3/4-mill if approved by voters.
Municipalities	S	...do....	..do..	30.....	....do...	All.....	...do....	....do.....	
School districts	S	...do....	..do..	(b).....	....do...	None.....	...do....	(c).....	[c]Subject to evaluation by School Budget Review Committee.
Kansas:									NOTE: The so-called "tax lid" law (Ch. 402, Laws of 1970) suspended operation of the property tax limitations until Dec. 31, 1972, by prohibiting a local taxing unit to levy an aggregate rate (with certain exceptions, such as debt service levies) that would produce an amount in excess of the aggregate amount levied in 1969 for use in 1970 (base year).
Counties[a]	S	...do....	..do..	3.5-6.5[b].	....do...	All.....	Numerous.	(c).....	[a]Each taxing jurisdiction is required to reduce its property tax levy or levies by the amount it receives from the State as its share of the local ad valorem tax reduction fund. The tax rates, within the statutory limitations, are computed on the basis of the reduced levies.
Municipalities[a]	S	...do....	..do..	1.3-13[d]..	....do...	All.....	...do....	(c).....	
School districts[a]	S	...do....	(e)...	(e).....	Operating	All.....	...do....	(f).....	
Townships[a]	S	...do....	Rate..	0.58.....	General..	All.....	...do....	(c).....	[b]Based on assessed valuation: less than $13 million or population below 3,500, 6.5 mills; $13 million to $30 million, 4.25 mills; $30 million to $140 million, 3.5 mills; over $140 million, 4.25 mills. But the total for all purposes (with certain exceptions) shall be 5.3-8.75 mills, based on assessed valuation with modifications for population size.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
ansas (Continued)									
entucky:									
Counties	C	Specific.	Rate..	5[a]	General..	Partial[b].	Few.....	None.....	
Municipalities	C	....do...	..do..	7.5-15[c]..	....do...	....do[b]..	Few.....	....do.....	
School districts	S	....do...	(d)...	(d).....	All.....	All.....	None.....	Voted[e].....	
Special districts	C	....do...	Rate..	5.....	General..	Partial[b].	Few.....	None.....	

[c] Voted at election or authorized by State board of tax appeals and limited to 25 percent above the statutory limits, but see NOTE above.

[d] Based on class of city (with modifications for population size in the case of 1st-class cities). For all purposes (except debt service and certain other purposes) the limits range from 11 to 33.5 mills.

[e] The amount a district can budget or expend for operating expenses per pupil is limited to 104 percent of the amount legally budgeted for operating expenses per pupil in the preceding school year subject to a reduction in State aid for any excess amount expended.

[f] Voted at election or authorized by school budget review board, not limited to a specified amount, but see NOTE above.

[g] Aggregate limitation of 2.5 mills for all levies, with certain exceptions.

[a] But levy is limited to a 10 percent increase over the previous year's revenue.

[b] Additional levies are permitted to service debt outstanding prior to adoption of the tax limitation, and debt approved by 2/3 of the voters.

[c] The greater the population, the higher the rate.

[d] Tax levies are limited to an increase of 10 percent over the previous year's revenue.

[e] Up to 5 mills for school construction, or for lease payments on buildings financed through the issue of revenue bonds.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Louisiana:									[a]Up to 5 mills, each, for specific purposes, not to exceed 25 mills for all special purposes. [b]7 mills, except 10 mills for charter cities and certain other cities. [c]Up to 7 mills for school support, and another 5 mills for school maintenance and repair, for a maximum period of 10 years.
Parishes (counties)..	C	....do...	..do..	4.....	...do....	All.....	Few.....	Voted[a].....	
Municipalities.....	C	....do...	..do..	7-10[b]....	...do....	All.....	Few.....	....do[a]....	
School districts.....	C	....do...	..do..	5.....	All.....	All.....	None.....	....do[c]....	
Maine (no limitations)	...	.....	.....	.....	.....	.....	.....	.....	
Maryland (no limitations)	...	.....	.....	.....	.....	.....	.....	.....	
Massachusetts (no limitations)		.....	.....	.....	.....	.....	.....	.....	
Michigan:									[a]Except cities, villages, charter counties, charter townships, charter authorities, or other authorities, the tax limitations of which are provided by charter or by general law. [b]18 mills if separate tax limitations for any county for the townships and for school districts therein are adopted by a majority of voters. [c]Limited to 50 mills and 20 years. [d]Specified rate limits, ranging up to 20 mills are provided outside the overall limits depending upon type of local unit, and existence of charter. In some instances, additional levies for special purposes are permitted.
All taxing units[a]....	C	Overall..	Rate..	15[b].....	All.....	All.....	Few.....	Voted[c].....	
Cities, villages, charter counties, etc. (see [a])....	S	Specific.	..do..	20[d].....	All.....	None.....	(d).....	....do.....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Minnesota:									
Counties	S	Specific.	Rate or amount	Various[a].	General...	All.....	Few.....	None.....	[a]5 mills in counties with population of 100,000 or greater. For counties with less than 100,000 population the limit is the greater of (1) the amount produced by a levy of 15 mills, and (2) $125,000 to $160,000, according to population.
Cities	S	....do...	Rate & dollars per capita.	40[b].....	....do....	None[b]....	Few.....	....do.....	[b]Not applicable to cities operating under any special law or under any form of charter; nor to a 3d-class city contiguous to a city of the 1st-class located in a different county; nor to a city of the 4th-class located in a county containing a city of the 1st-class. The maximum levy in all cities is $54 per capita, including debt service, plus upward adjustments commensurate with increases in the BLS Consumer Price Index. However, deficiency levies for debt service are not limited.
Villages	S	....do...	..do..	35[c].....	....do....	All.....	Numerous.	....do.....	[c]Applicable to villages with assessed valuation of less than $500,000. For villages with assessed valuation of more than $500,000 the maximum mill rate is 30 plus cost-of-living increases. Additional millages are allowed for specified purposes. For all purposes, the limit is $54 per capita.
Townships	S	....do...	Rate..	Various[d].	....do....	None[d]....	None.....	....do.....	[d]5 mills for poor relief; 25 mills for road and bridge purposes; 5 mills for road emergencies; and 5 or 10 mills for other purposes (not applicable to debt service). There is an overall limit of 17 mills whenever 17 mills would produce $1,000 or more of taxes per section. However, deficiency levies for debt service are not included.
School districts	S	....do...	Dollars per capita or per pupil.	(e).....	....do....	All.....	Few.....	....do.....	[e]Greater of $326 ($390 for 1970 and 1971) per resident pupil plus debt service or $85 to $109 per capita, depending upon population, plus upward adjustments commensurate with increases in the BLS Consumer Price Index. A school district may exceed the limit by up to 5 percent subject to holding a public
Special districts	S	....do...	Rate or amount.	Various[f].	....do....	All.....	Numerous.	....do.....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971
(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Minnesota (Continued)									hearing on the proposed increase. [f]Limitations, when specified, are expressed in mills, dollar amounts, or per capita dollar amounts.
Mississippi:									
Counties	S	....do...	Rate..	6-12[a]	....do....	All.....	Few.....	(b).....	[a]The greater the assessed valuation, the lower the limit.
Municipalities	S	....do...	..do..	15.....	....do....	All.....	Few.....	None.....	[b]An additional 2 mills may be levied by counties with an assessed value of less than $8,000,000, 1 mill by counties with above $8,000,000, subject to petition for an election.
School districts	S	....do...	..do..	25[c].....	All.....	All.....	Few.....	Voted.....	[c]For county school districts, the difference between the minimum support program and 25 mills or 10 mills whichever produces the greater amount; for municipal school districts, the difference between the minimum 25 mills, or 15 mills, whichever produces the greater amount.
Missouri:									
Counties	C-S	Specific.	Rate.	3.5-5.0[a]	General...	All.....	Several..	Voted[b]	[a]3.5 mills in counties with over $300 million assessed valuation; 5 mills in all other counties.
Municipalities	C-S	....do...	..do..	10[c].....	....do....	All.....	...do....	....do[b]	[b]Limited for 4-year periods and, for cities, to 3 mills.
School districts	C-S	....do...	..do..	6.5-12.5[d]	....do....	All.....	...do....	....do[e]	[c]The statutes impose a 5-mill limit on towns and villages. St. Louis is permitted the sum of municipal and county limitations.
Townships	S	....do...	..do..	2.....	....do....	All.....	...do....	None.....	[d]School districts formed of cities and towns including St. Louis, 12.5 mills; other districts, 6.5 mills.
									[e]Voted levies cannot exceed 3 times the basic rate for a 1-year period (2 years in cities of 75,000 population or more).
									[f]Provided that the combined township and county rate may not exceed the constitutional limit established for county purposes.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation: Citation[1]	Scope[2]	Method[3]	Rate limit: Number of mills[4]	Coverage[5]	Provisions for exceeding limit: Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	Remarks
Montana:									
Counties	S	....do...	..do..	22-24[a]...	....do....	All.....	Numerous.	Voted[b].....	[a]Depending on class of county (population size).
Municipalities	S	....do...	..do..	24[c].....	....do....	All.....	....do...	....do[b]....	[b]For certain specified purposes.
School districts	S	....do...	(d)...	(d).....	(d).....	(d).....	(d).....	(d).....	[c]Provided, that cities whose indebtedness equals or exceeds the constitutional limitations, the maximum levies for general municipal and administrative purposes shall be 15 mills. An all purpose annual levy, not to exceed 65 mills, in lieu of the multiple levies now in existence.
									[d]Mandatory countywide levies of 25 mills for elementary schools and 15 mills for high schools in connection with State school foundation program. Where State appropriations are not sufficient to fund the foundation program fully, counties are required to impose additional levies to make up for the deficiency. School districts may levy additional amounts (above the foundation program) up to 15 mills for elementary schools and 14 mills for high schools).
Nebraska:									
Counties	C-S	....do...	Rate..	5.....	All.....	All[a].....	None.....	Voted.....	[a]Except for servicing debt incurred prior to adoption of the constitutional amendment, voter approval is required.
Do	S	....do...	..do..	10-12[b]...	General...	All[c].....	Numerous.	None.....	[b]Based upon population size. The constitutional limits are stated in terms of "actual value" of property, but the statutory limits are in terms of "assessed value" which is defined as 35 percent of "actual" value.
Municipalities	S	....do...	..do..	25-30[d]...	All.....	All[c].....	None.....	(e).....	[c]Subject to voter approval.
School districts	S	....do...	..do..	12[f].....	All.....	All[c].....	....do...	Voted.....	[d]25 mills for 1st-class cities, 30 mills for 2d-class cities. The city of Lincoln is permitted 9.75 mills and Omaha, 14.4 mills.
Townships	S	....do...	..do..	8.....	All.....	All[c].....	....do...	None.....	[e]Subject to voter (55 percent) approval, the city of Omaha and 1st-and 2d-class school districts may levy additional taxes; a 60-

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 19 1

(Continued)

State and types of local government	Type of limitation: Citation[1]	Scope[2]	Method[3]	Rate limit: Number of mills[4]	Coverage[5]	Provisions for exceeding limit: Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	Remarks
Nebraska (Continued)									[f]percent voter approval is required to levy a 1/4-mill recreation fund tax. [f]Limit applies to 1st- and 2d-class districts only.
Nevada:									
All taxing units	C-S	Overall	Rate	50	All	None	None	None	[a]Within the overall 50-mill rate.
Municipalities	S	Specific.	do.	30[a] [b]	All	do.	do.	do.	[b]Special tax rates are established by the legislature for selected cities.
School districts	S	do.	do.	15[a]	All	All	do.	do.	[c]Counties may levy this tax in such towns located within said counties. There is no maximum tax rate for all county purposes, but separate limits are set for certain county purposes.
Unincorporated towns	S	do.	do.	15[a] [c]	All	All	do.	do.	
New Hampshire (no limitations)	...	...	...	...	...	...	...	...	
New Jersey (no limitations)	...	...	...	...	...	...	...	...	
New Mexico:									
All taxing units	C	Overall	Rate	20[a]	General[b]	All	Few[b]	(b)	[a]Includes 4 mills for State purposes (but increased to 5.5 mills by statute). Of the 5.5 mill State levy the proceeds of 1.7 mills is required to be returned to the school districts and of 0.5 mill to the counties.
Do	S	Specific.	(c)	(c)	...	...	...	(c)	[b]When approved by the voters, the legislature may authorize taxes outside the 20-mill limit.
Counties	S	do.	Rate	5[d]	General	All	Few	(b)	[c]All increases in tax rates are limited to 5 percent in excess of the previous year's rate, except upon approval of the State tax commission.
Municipalities	S	do.	do.	5	do.	All	Few	(b)	[d]Plus another 18 mills for county school purposes.
School districts	S	do.	do.	5[e]	do.	All	Few	(b)	[e]See also note (d), above.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
New York:									NOTE: Rate limitations in New York apply against the average full value of real estate for the preceding 5 years.
Counties	C	....do...	..do..	15-20[a]	All[b]	All	None	(a)	
Municipalities	C	....do...	..do..	20[c]	All[d]	All	....do...	None	
Certain school districts[e]	C	....do...	..do..	12.5-20[f]	All[b]	All	....do...	Voted[g]	
Villages	C	....do...	..do..	20	All	All	....do...	None	

[a] The limit is 15 mills, but it may be increased to 20 mills by resolution of the county board of supervisors approved either by 2/3 of voters or by simple majority vote followed by a mandatory referendum.

[b] Excluding capital construction.

[c] The limit for New York City is 25 mills (for combined county, city, and school purposes). For cities with populations over 125,000, the limit includes taxes for schools.

[d] Excluding capital construction (but for New York City the amount of the capital improvement must be charged against the debt limit).

[e] School districts that are coterminous with or partly within cities having less than 125,000 population.

[f] The basic rate is 12.5 mills, but districts having higher rates prior to 1947 are permitted to retain them, up to a 20-mill limit.

[g] Voters may authorize additional levies, at 2.5 mills per election, up to 20 mills (exclusive of capital improvements).

TABLE C-4.--STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
North Carolina:									NOTE: Schools are operated by county and city administrative units, which are closely supervised by the State, and are also controlled to some extent by the counties which levy taxes for them.
Counties.....	C	Overall..	Rate..	2[a].....	(a).....	All.....	(a).....	(a).....	
Municipalities.....	S	....do...	..do..	15[b].....	All.....	All.....	(b).....	None.....	
Counties and municipalities.[c].....	S	(c).....	(c)...	(c).....	(c).....	(c).....	(c).....	(c).....	

[a] The constitutional 2-mill limit has very limited application, since it excludes "special purpose" taxes levied by counties with approval by the general assembly. It also excludes school taxes levied for maintenance of the 6-month term required by the constitution. The term "special purpose" has been interpreted broadly by the general assembly and the Supreme Court, so that county levies for such important functions as debt service, public welfare, operation of hospitals, and the like, are approved as "special purpose" levies outside the 2-mill limitation. Such levies are generally approved without reference to any limitation, although there is a 5- to 6-mill limit (depending upon population size) on the amount of county school taxes that can be levied to supplement the constitutional 6-month school term. At times, the general assembly requires a countywide vote on a "special purpose" levy it approves.

[b] Additional taxes to meet extraordinary expenses of law enforcement are permissible.

[c] All taxes, except those for "necessary expenses" (broadly interpreted), must be approved by voters. There are statutory limits on amount that voters may approve for most purposes.

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TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

(Continued)

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
North Dakota:									
Counties	S	Specific.	Rate..	20	General...	All	Numerous.	Voted[a]	[a]Up to 50 percent in excess of legal limits for 1 year.
Cities	S	....do...	..do..	31[b]	....do....	All	....do...	....do[a]	[b]Cities with populations over 5,000 may levy an additional 0.05 mills per 1,000 persons over 5,000 up to 33 mills and upon majority vote may increase maximum levy to 37 mills.
School districts	S	....do...	..do..	19-34[c]	....do....	All	....do...	....do[d]	[c]For any one school district, the rate limitation is the sum of the individual rates applicable to the specific grades taught. The basic limit is 19 mills, going up to 34 mills for districts offering 4 years of high school. Districts having over 4,000 population and providing 4 years of high school may remove all limitations with approval of a majority of the voters.
Civil townships	S	....do...	..do..	18	All	All	....do...	....do[a]	[d]Up to 25 percent in excess of legal limits, provided that if 60 percent of voters approve, up to 75 percent in excess may be levied. See also note (c) above.
Park districts	S	....do...	..do..	4[e]	All	All	(e)	....do[f]	[e]Plus another 4 mills for the purchase of airport property.
									[f]An additional 6 mills.
Ohio: All taxing units.	C-S	Overall..	..do..	10	All	All[b]	None	....do[c]	[a]Excluding cities with charters permitting rates in excess of their share of the overall rate.
									[b]For servicing debt authorized by the voters. Taxes levied to service debt not authorized by election must be approved by the voters.
									[c]Subject to numerous provisions regarding purposes of levies and the machinery for obtaining voter approval.

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Oklahoma:									
All taxing units.....	C	Overall..	Rate..	15[a].....	All.....	All.....	Several[b].	Voted[c].....	[a]School districts are assigned 5 mills of this total; and, in addition, counties may levy 4 mills outside the limitation for school purposes, and school districts, upon certification of need by the board of education may levy another 15 mills outside the overall limits; plus an additional 10-mill local support and a 5-mill emergency levy, both subject to voter approval. Area school districts may be established for support of vocational and/or technical schools, with a 5-mill levy limit subject to voter approval. [b]Subject to voter approval. [c]Subject to provisions regarding purposes of levies and maximum increases in rates.
Oregon:									
All taxing units.....	C-S	Specific.	(a)....	(a).....	(a).....	All.....	(a).....	....do.....	[a]Each local taxing unit's levies shall not exceed 106 percent of the dollar amount of the property tax which was lawfully levied in any one of the previous three years in which the tax was levied, exclusive of levies specifically authorized by the legislature or approved by the voters. The statutes also provide general and specific rate limitations for designated taxing units (e.g., county fairs, libraries, hospitals, roads, and port districts).

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Pennsylvania:									[a]Depending on class of county. An additional 10 mills is authorized for rental payments to municipal authorities. [b]Applicable to cities of the 3d class. Cities of the 1st class (Philadelphia), 2d class (Pittsburgh), and 2d class A (Scranton) may levy property taxes at the necessary rate. [c]Cities of the 3d class and townships may petition to the court of quarter sessions for an additional general levy up to 5 mills. [d]The permissible rate varies with the class of school districts, ranging from 11.75 mills, with specified additional rates, for 1st class and 1st class A districts; to 25 mills for class 2 to 4 districts, with authorization for additional levies at necessary rates for certain specified purposes (including debt servicing); to 75 mills (for all purposes) for "independent districts." The Philadelphia City Council is authorized to levy an additional school tax of 42.5 mills for 1971 and 1972. [e]Restricted as to purpose and rate. [f]25 mills for 1st class, 14 mills for 2d class townships.
Counties	S	....do...	Rate..	15-20[a]...	General[a]..	All.....	Few.....	None.....	
Municipalities[b].....	S	....do...	..do..	25.....	....do....	All.....	Few.....	....do[c]....	
School districts.....	S	....do...	..do..	(d).....	(d).....	(d).....	(d).....	....do.....	
Boroughs.....	S	....do...	..do..	30.....	General...	All.....	Few.....	Voted[e].....	
Townships.....	S	....do...	..do..	14-25[f]...	....do....	All.....	Few.....	....do[c e]..	
Rhode Island:									[a]There are no organized counties, and the State has not levied a property tax for some years. School taxes are included with city and town taxes. [b]The city or town council may petition the State director of administration for permission to levy taxes in excess of limits.
Cities and towns[a]....	S	Overall..	..do..	35.....	All.....	All.....	None.....	State director of administration.[b]	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
South Carolina:									[a]Towns under 1,000 population, 40 mills; towns between 1,000 and 5,000 population, 50 mills. Numerous municipalities have lower tax limits stated in special legislative acts. There is no tax limit on cities with population over 5,000. [b]For towns and cities with 1,000 or more population. [c]Subject to voter approval.
Counties, no limitations	.....	.....	.....	.....	.....	.....	.....	.....	
Municipalities	S	Specific.	Rate...	40-50[a]...	All.....	All[b].....	None.....	None.....	
School districts	S	....do...	..do...	15[c].....	All.....	All.....	....do...	Voted.....	
South Dakota:									[a]5 mills for unorganized counties and 5 to 10 mills, varying inversely with the amount of assessed valuations, for organized counties. [b]All purposes except the poor relief fund. [c]Up to another 10 mills if 3/4 of voters approve. [d]20 mills each for elementary and high school systems, 40 mills for combined systems.
Counties	S	....do...	..do...	5-10[a]....	All[b].....	All.....	Few.....	....do[c].....	
Municipalities	S	....do...	..do...	15.....	All[b].....	All.....	None.....	....do[c].....	
School districts	S	....do...	..do...	20-40[d]...	All.....	All.....	....do...	....do[c].....	
Townships	S	....do...	..do...	5.....	All[b].....	All.....	....do...	....do[c].....	
Tennessee:									Note: Schools are primarily operated by cities and counties in Tennessee. [a]The county tax rate is determined by the quarterly county court, and includes all purposes except roads and bridges, schools, debt servicing, and levies authorized by special legislative acts.
Counties, no limitations[a]	.....	.....	.....	.....	.....	.....	.....	.....	
Municipalities, no limitations	.....	.....	.....	.....	.....	.....	.....	.....	
Towns	S	Specific.	Rate...	15.....	All.....	None.....	None.....	None.....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Texas:									[a]All purposes, except an additional 3 mills may be levied for farm-to-market roads. [b]For debt service of bonds for specified purposes including construction and improvement of roads, reservoirs, dams, etc. [c]Except, if authorized by the legislature, voters may approve a 1.5-mill tax for roads. [d]Cities over 5,000 population may levy 25 mills, unless their charters specify otherwise. [e]Junior college districts are also permitted to levy a 10-mill tax. All school taxes, however, are subject to majority voter approval.
Counties	C	....do...	..do...	8	All[a]	Partial[b]	(a)	....do[c]	
Municipalities:									
Noncharter (general law)	C	....do...	..do...	8	All	...do[b]	None	None	
Charter (home rule)	C-S	....do...	..do...	15-25[d]	All	None	....do...	....do	
School districts	C-S	....do...	..do...	15[e]	All	...do...	....do...	....do	
Villages	S	....do...	..do...	2.5	All	...do...	....do...	....do	
Utah:									[a]Counties with more than $20,000,000 assessed valuation are permitted only 16 mills. [b]School districts must levy sufficient taxes to support the State education program. A district may levy an additional tax to provide for an amount up to 10 percent of the minimum basic program. [c]An additional 10 mills is permitted for capital improvements, plus an additional 10 mills for maintenance and operation, both subject to voter approval. [d]A 4-mill additional tax is permitted, subject to 2/3 voter approval.
Counties	S	....do...	..do...	16-18[a]	All	All	Several	....do	
Municipalities (cities)	S	....do...	..do...	35	General	All	...do...	....do	
School districts	S	....do...	(b)	(b)	(b)	All	Few[b]	Voted[c]	
Towns	S	....do...	Rate	16	General	All	Several	....do[d]	
Vermont (no limitations)	...	.....	.....	.....	.....	.....	.....	.....	
Virginia (no limitations)	...	.....	.....	.....	.....	.....	.....	.....	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
Washington:									[a]Except port and public utility districts. [b]To be reduced to 21 mills beginning with levies made in 1971. There is an additional statutory dollar limit within the overall mill limit, which is based upon increases in the tax base (assessed value). Subject to voter authorized increases, the dollar amount by which a levy may be increased is restricted to an increase resulting from "normal" growth in the tax base (i.e., growth other than that resulting from an increase in the assessment ratio). [c]Within the overall limit. [d]Numerous special districts may levy taxes within the overall limits. Note, however, the exception of port and public utility districts. [e]Townships share on a prorated basis with other junior taxing jurisdictions, in the available "floating" millage with amounts to 6 mills in unincorporated areas.
All taxing units[a]	C	Overall	Rate	22[b]	All	All	None	Voted	
Counties	S	Specific.	..do...	9[c]	All	All	....do...	....do....	
Municipalities	S	....do...	..do...	7.5[c]	All	All	....do...	....do....	
School districts	S	....do...	..do...	7[c]	All	All	....do...	....do....	
Special districts	S	....do...	..do...	(d)	All	All	....do...	....do....	
Townships	S	....do...	..do...	(e)	(e)	(e)	(e)	(e)	
West Virginia:									[a]A separate overall rate limit applies to each of 4 classes of property, and is apportioned by statute among the various types of government, including the State. Thus, of the 5 mills allowed on class 1 property, municipalities are currently allotted 1.250 mills, counties 1.430 mills, school districts 2.295 mills, and the State 0.025 mill. The allocation of the rates allowed the other 3 classes is in the same proportion. The 4 classes are: 1--intangible and agricultural personal property; 11--owner-occupied residential property and farm occupied and cultivated by owners or bona fide tenants; 111--all other property
All taxing units	C-S	Overall	..do...	5-20[a]	All[b]	(b)	None	Voted[c]	
Counties	S	Specific.	..do...	1.430 - 5.720[a].	All	None	....do...	....do[e]	
Municipalities	S	....do...	..do...	1.25-5[a].	All	....do....	....do...	....do[c]	
School districts (county-wide)	S	....do...	..do...	2.295[a] 918[a]..	All	All	....do...	....do[c]	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	
West Virginia (continued)									situated outside municipalities; and IV--all other property situated inside municipalities. [b]Debt service for school districts is excluded from the limitations. [c]School districts may increase their levies by 100 percent for a 5-year period; all other governments may increase their levies by 50 percent for a 3-year period.
Wisconsin:									[a]Except that counties containing only one town, and the towns in such counties, are allowed a 15-mill limit. [b]Except a limit of only 11 mills for Milwaukee; municipalities including Milwaukee, which operate schools are allowed additional rates for school purposes. [c]School district limits repealed by 1967 legislation. [d]An additional 10 mills only.
Counties	S	Specific.	Rate...	10[a]	General...	All	Few	None	
Municipalities	S	....do...	..do...	35[b]	....do....	All	Few	....do....	
School districts (no limitations)[c]									
Towns	S	....do...	..do...	10[a]	General...	All	Few	....do....	
Villages	S	....do...	..do...	10	....do....	All	Few	Voted[d]	
Wyoming:									[a]Of which 3 mills are for county schools. [b]The greater the assessed valuation, the lower the limit. [c]For a year's duration, an additional 2-mill tax for current expenses is permitted. [d]For grades 1 to 8, 11 mills, and another 7 mills for high schools. In addition there is a mandatory countywide school levy of 12 mills.
Counties	C-S	....do...	..do...	12[a]	All	All	None	....do	
Do	S	....do...	..do...	Up to 8[b]	General...	All	Several.	Voted[c]	
Municipalities	C	....do...	..do...	8	All	All	None	None	
School districts	S	....do...	..do...	18[d]	All	All	....do..	Voted	

TABLE C-4 --STATE CONSTITUTIONAL AND STATUTORY RESTRICTIONS ON LOCAL POWER TO RAISE PROPERTY TAX REVENUE, 1971

State and types of local government	Type of limitation			Rate limit		Provisions for exceeding limit			Remarks
	Citation[1]	Scope[2]	Method[3]	Number of mills[4]	Coverage[5]	Debt service exclusion[6]	Specified purpose levies[7]	Approved increases[8]	

[1]The citation for the limitations is either the State's constitution (C), statutes (S), or both (C-S).

[2]The scope of the limitations is either overall (all taxing units) or specific (applicable only to a particular class of local government).

[3]The rate limitation method is commonly used by States. Footnotes in this column refer to other methods (e.g., budgetary control) listed in the "Remarks" column.

[4]The rate limitations listed here are shown as a number of mills per dollar of assessed valuation. 1 mill is the equivalent of $1 per $1,000 or 10 cents per $100 of assessed valuation. Per capita limitations and other forms are shown in the "Remarks" column.

[5]Typically the rate limitations apply to general purposes (usually signifying current expense levies, general revenue levies, corporate levies, and the like). The "all" designation, where applicable, includes all purposes except as noted in the column headed "Provisions for exceeding limits--specified purpose levies."

[6]The exclusion of debt service from the limitations may be partial or complete (listed here as "all"). Partial exclusions are explained in the "Remarks" column. The designation "none" in this column indicates that debt service is included within the limitations.

[7]For those taxing units with only general purpose coverage of the limitations, an entry in this column shows the relative degree to which additional tax levies for special purposes are provided: few, several, and numerous, ranging from only 1 to many.

[8]Entries in this column indicate whether local jurisdictions are authorized to exceed the general limitations by referendum (voted), or by some other means as noted in the "Remarks" column.

Note: This tabulation presents data pertaining to State-imposed property tax limitations on counties, municipalities, and school districts in effect as of mid-1971. In some instances the available data also permit the listing of property tax restrictions on other classes of local units and special districts.

Source: Advisory Commission on Intergovernmental Relations.

APPENDIX D

APPENDIX TABLES

1. State and Local General Revenue From Own Sources-Percentage Increase 1942 to 1969 and 1953 to 1969.....

2. State General Revenue From Own Sources-Percentage Increase 1942 to 1969 and 1953 to 1969.....

3. Local General Revenue From Own Sources-Percentage Increase 1942 to 1969 and 1953 to 1969.....

4. Per Capita State and Local General Revenue From Own Sources, 1942, 1953, and 1969.....

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6. Per Capita Local General Revenue From Own Sources,1942, 1953, and 1969.....

7. Percentage of State-Local General Revenue From Federal Aid, by State,Selected Years 1942 through 1970.....

8. Percentage of State-Local General Revenue From Taxes, by State Selected Years 1942 through 1970.....

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10. Percentage of State-Local General Revenue From Individual Income Taxes, by State,Selected Years 1942 through 1970.....

11. Percentage of State-Local General Revenue From Corporation Income Taxes, by State,Selected Years 1942 through 1970.....

12. Percentage of State-Local General Revenue From General Sales and Gross Receipts Taxes, by State,Selected Years 1942 through 1970..

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21. Tax Revenues Required for State Financing of 90 Percent of School Costs-- Case 3. Federal Takeover of Welfare Costs.....

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23. Estimated Local Property Taxes for Schools as a Percentage of Total Local Property Taxes, by State, 1970.....

TABLE 1

STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES—PERCENTAGE INCREASE
1942 to 1969 and 1953 to 1969
(Dollar amounts in millions)

States	State and local general revenue from own sources			Percentage increase	
	1969	1953	1942	1942 to 1969	1953 to 1969
UNITED STATES, TOTAL	$94,748.4	$24,442.8	$9,560.2	891.1	287.6
ALABAMA	1,121.8	288.3	94.0	1,093.4	289.1
ALASKA					
ARIZONA	826.2	148.2	40.4	1,945.0	457.5
ARKANSAS	584.0	169.8	65.5	791.6	243.9
CALIFORNIA	12,822.1	2,587.4	764.1	1,578.1	395.6
COLORADO	1,052.0	263.7	94.9	1,008.5	298.9
CONNECTICUT	1,394.4	339.9	153.2	810.2	310.2
DELAWARE	280.7	51.7	17.2	1,532.0	442.9
DIST. OF COLUMBIA	386.6	122.7	50.6	664.0	215.1
FLORIDA	2,739.6	515.6	136.3	1,910.0	431.3
GEORGIA	1,684.7	404.3	115.7	1,356.1	316.7
HAWAII					
IDAHO	299.0	97.6	36.1	728.3	206.4
ILLINOIS	4,897.6	1,337.9	628.5	679.3	266.1
INDIANA	2,178.9	620.0	221.8	882.4	251.4
IOWA	1,351.7	448.7	176.1	667.6	201.2
KANSAS	1,033.7	324.8	115.6	794.2	218.3
KENTUCKY	1,170.8	269.4	107.1	993.2	334.6
LOUISIANA	1,547.1	460.9	145.1	966.2	235.7
MAINE	359.4	127.9	54.3	561.9	181.0
MARYLAND	1.878.5	362.6	120.9	1,453.8	418.1
MASSACHUSETTS	2,841.4	880.5	385.4	637.3	222.7
MICHIGAN	4,694.0	1,188.7	427.4	998.3	294.9
MINNESOTA	1,953.8	557.0	233.0	738.5	250.8
MISSISSIPPI	763.4	203.6	81.9	832.1	275.0
MISSOURI	1,758.0	469.8	204.8	758.4	274.2
MONTANA	311.9	103.0	46.7	567.9	202.8
NEBRASKA	693.3	199.7	75.7	815.9	247.2
NEVADA	285.4	46.1	13.2	2,062.1	519.1
NEW HAMPSHIRE	262.6	80.7	38.0	591.1	225.4
NEW JERSEY	3,405.6	833.1	378.0	801.0	308.8
NEW MEXICO	472.7	124.0	32.1	1,372.6	281.2
NEW YORK	12,472.0	3,256.3	1,507.5	727.3	283.0
NORTH CAROLINA	1,721.4	457.2	163.8	950.9	276.5
NORTH DAKOTA	321.7	119.1	57.7	457.5	170.1
OHIO	4,195.7	1,175.3	493.1	750.9	257.0
OKLAHOMA	1,022.4	334.8	127.2	703.8	205.4
OREGON	1,024.9	287.2	91.1	1,025.0	256.9
PENNSYLVANIA	4,738.6	1,373.2	711.5	566.0	245.1
RHODE ISLAND	402.7	117.1	52.5	667.0	243.9
SOUTH CAROLINA	785.6	252.9	81.3	866.3	210.6
SOUTH DAKOTA	301.8	108.2	49.5	509.7	178.9
TENNESSEE	1,283.7	330.6	117.1	996.2	288.3
TEXAS	4,085.6	1,081.3	318.8	1,181.6	277.8
UTAH	442.5	111.5	41.4	968.8	296.9
VERMONT	198.4	54.4	23.8	733.6	264.7
VIRGINIA	1,796.0	381.9	132.1	1,259.6	370.3
WASHINGTON	1,844.5	481.8	156.1	1,081.6	282.8
WEST VIRGINIA	602.1	195.3	94.6	536.5	208.3
WISCONSIN	2,262.2	636.6	266.8	747.9	255.4
WYOMING	195.7	60.5	20.8	840.9	223.5

SOURCE: U.S. Census of Governments data.

TABLE 2

STATE GENERAL REVENUE FROM OWN SOURCES--PERCENTAGE INCREASE
1942 to 1969 and 1953 to 1969
(Dollar amounts in millions)

States	State general revenue from own sources			Percentage increase	
	1969	1953	1942	1942 to 1969	1953 to 1969
UNITED STATES, TOTAL	$49,069.1	$11,750.1	$4,273.9	1,048.1	317.6
ALABAMA	691.1	182.4	57.4	1,104.0	278.9
ALASKA					
ARIZONA	495.0	88.0	26.0	1,803.8	462.5
ARKANSAS	368.3	111.4	43.9	738.9	230.6
CALIFORNIA	5,938.4	1,236.9	367.4	1,516.3	380.1
COLORADO	524.1	128.4	44.0	1,091.1	308.2
CONNECTICUT	664.5	156.2	63.2	951.4	325.4
DELAWARE	202.5	37.31	11.8	1,616.1	442.9
DISTRICT OF COLUMBIA					
FLORIDA	1,423.8	269.1	65.3	2,080.4	429.1
GEORGIA	950.3	234.9	63.3	1,401.3	304.6
HAWAII					
IDAHO	176.9	47.0	15.8	1,019.6	276.4
ILLINOIS	2,183.2	537.2	236.2	824.3	306.4
INDIANA	1,122.9	320.4	107.8	941.7	250.5
IOWA	698.1	189.3	79.1	782.6	268.8
KANSAS	483.7	153.7	49.5	877.2	214.7
KENTUCKY	778.6	149.5	59.2	1,215.2	420.8
LOUISIANA	1,044.9	340.2	92.9	1,024.8	207.1
MAINE	196.0	64.0	25.2	677.8	206.3
MARYLAND	1,001.7	186.4	53.8	1,761.9	437.4
MASSACHUSETTS	1,390.6	340.7	130.1	968.9	308.2
MICHIGAN	2,640.1	649.2	207.2	1,174.2	306.7
MINNESOTA	1,112.6	274.3	116.5	855.0	305.6
MISSISSIPPI	482.6	124.2	46.4	940.1	288.6
MISSOURI	820.7	219.8	88.1	831.6	273.4
MONTANA	147.3	49.2	18.1	713.8	199.4
NEBRASKA	291.4	74.2	27.8	948.2	292.7
NEVADA	144.6	20.3	5.[illegible]	2,680.8	612.3
NEW HAMPSHIRE	112.0	32.9	15.[illegible]	617.9	240.4
NEW JERSEY	1,418.5	226.3	109.2	1,199.0	526.8
NEW MEXICO	340.1	96.3	23.9	1,323.0	253.2
NEW YORK	6,057.4	1,189.0	507.3	1,094.0	409.5
NORTH CAROLINA	1,187.2	315.1	109.2	987.2	276.8
NORTH DAKOTA	183.5	69.2	29.7	517.8	165.2
OHIO	1,874.2	534.6	239.8	681.6	250.6
OKLAHOMA	638.4	223.9	80.1	698.0	185.1
OREGON	518.2	146.3	41.9	1,136.8	254.2
PENNSYLVANIA	2,527.8	656.7	306.1	725.8	284.9
RHODE ISLAND	239.7	60.1	18.5	1,195.7	298.8
SOUTH CAROLINA	551.6	175.8	50.3	996.6	213.8
SOUTH DAKOTA	134.6	47.5	20.7	550.2	183.4
TENNESSEE	731.7	196.6	58.4	1,152.9	272.2
TEXAS	2,128.6	536.5	157.4	1,252.4	296.8
UTAH	262.2	57.8	22.7	1,055.1	353.6
VERMONT	124.0	29.3	12.0	933.3	323.2
VIRGINIA	1,106.9	227.0	79.8	1,287.1	387.6
WASHINGTON	1,150.9	298.1	97.6	1,079.2	286.1
WEST VIRGINIA	411.9	134.4	61.0	575.2	206.5
WISCONSIN	1,286.9	279.5	122.1	954.0	360.4
WYOMING	108.8	33.1	9.6	1,033.3	228.7

SOURCE: U.S. Census of Governments data.

TABLE 3

LOCAL GENERAL REVENUE FROM OWN SOURCES–PERCENTAGE INCREASE
1942 to 1969 and 1953 to 1969
(Dollar amounts in millions)

States	Local general revenue from own sources			Percentage increase	
	1969	1953	1942	1942 to 1969	1953 to 1969
UNITED STATES, TOTAL	$45,679.2	$12,692.6	$5,286.3	764.1	259.9
ALABAMA	430.8	105.9	36.6	1,077.0	306.8
ALASKA					
ARIZONA	331.2	60.2	14.4	2,200.0	450.2
ARKANSAS	215.6	58.4	21.6	898.1	269.2
CALIFORNIA	6,883.7	1,350.6	396.6	1,635.7	409.7
COLORADO	527.9	135.3	50.9	937.1	290.2
CONNECTICUT	730.0	183.7	90.1	710.2	297.4
DELAWARE	78.1	14.4	5.4	1,346.3	442.4
DIST. OF COLUMBIA	386.6	122.7	50.6	664.0	215.1
FLORIDA	1,315.8	246.5	71.0	1,753.2	433.8
GEORGIA	734.4	169.4	52.4	1,301.5	333.5
HAWAII					
IDAHO	122.1	50.6	20.3	501.5	141.3
ILLINOIS	2,714.5	800.7	392.3	591.9	239.0
INDIANA	1,056.1	299.6	113.9	827.2	252.5
IOWA	653.6	259.4	97.0	573.8	152.0
KANSAS	550.0	171.1	66.1	732.1	221.4
KENTUCKY	392.2	119.9	48.0	717.1	227.1
LOUISIANA	502.2	120.7	52.3	860.2	316.1
MAINE	163.4	63.9	29.1	461.5	155.7
MARYLAND	876.8	176.2	67.1	1,206.7	397.6
MASSACHUSETTS	1,450.7	539.8	255.3	468.2	168.7
MICHIGAN	2,053.9	539.4	220.1	833.2	280.8
MINNESOTA	841.2	282.7	116.6	621.4	197.6
MISSISSIPPI	280.8	79.4	35.5	691.0	253.7
MISSOURI	937.3	250.0	116.6	703.9	274.9
MONTANA	164.6	53.9	28.6	475.5	205.4
NEBRASKA	401.9	125.5	47.9	739.0	220.2
NEVADA	140.8	25.7	7.9	1,682.3	447.9
NEW HAMPSHIRE	150.6	47.8	22.4	572.3	215.1
NEW JERSEY	1,987.1	606.8	268.7	639.5	227.5
NEW MEXICO	132.6	27.7	8.3	1,497.6	378.7
NEW YORK	6,414.7	2,067.4	1,000.2	541.3	210.3
NORTH CAROLINA	534.1	142.1	54.7	876.4	275.9
NORTH DAKOTA	138.1	49.9	28.0	393.2	176.8
OHIO	2,321.5	640.7	253.3	816.5	262.3
OKLAHOMA	384.0	110.9	47.3	711.8	246.3
OREGON	506.7	140.9	49.2	929.9	259.6
PENNSYLVANIA	2,210.8	716.5	405.4	445.3	208.6
RHODE ISLAND	162.9	57.0	33.9	380.5	185.8
SOUTH CAROLINA	234.0	77.0	31.0	654.8	203.9
SOUTH DAKOTA	167.2	60.7	28.8	480.6	175.5
TENNESSEE	552.0	134.0	58.7	840.4	311.9
TEXAS	1,957.0	544.7	161.4	1,112.5	259.3
UTAH	180.3	53.7	18.6	869.4	235.8
VERMONT	74.5	25.1	11.8	531.4	196.8
VIRGINIA	689.1	154.9	52.3	1,217.6	344.9
WASHINGTON	693.6	183.7	58.6	1,083.6	277.6
WEST VIRGINIA	190.2	60.9	33.6	466.1	212.3
WISCONSIN	975.3	357.2	144.7	574.0	173.0
WYOMING	86.9	27.4	11.3	669.0	217.2

SOURCE: U.S. Census of Governments data.

TABLE 4

PER CAPITA STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES

1942, 1953 and 1969

States	Per Capita State and local general revenue from own sources			Percentage increase		Per capita as percent of U.S. average		
	1969	1953	1942	1942 to 1969	1953 to 1969	1969	1953	1942
UNITED STATES, TOTAL	$471.75	$154.40	$71.39	560.8	205.5	100	100	100
ALABAMA	317.71	93.65	31.98	893.5	239.3	67	61	45
ARIZONA	488.03	166.14	77.07	533.2	193.7	103	108	108
ARKANSAS	292.72	93.90	33.10	784.4	211.7	62	61	46
CALIFORNIA	659.46	212.84	98.78	567.6	209.8	140	138	138
COLORADO	500.94	183.13	85.26	487.5	173.5	106	119	119
CONNECTICUT	464.81	160.50	85.51	443.6	189.6	99	104	120
DELAWARE	519.73	145.54	61.80	741.0	257.1	110	94	87
DIST. OF COLUMBIA	484.46	144.92	59.48	714.5	234.3	103	94	83
FLORIDA	431.15	156.77	63.35	780.6	175.0	91	102	89
GEORGIA	363.01	113.25	36.05	907.0	220.5	77	73	50
IDAHO	416.44	165.06	75.47	451.8	152.3	88	107	106
ILLINOIS	443.34	148.49	78.00	468.4	198.6	94	96	109
INDIANA	425.73	148.58	63.24	573.2	186.5	90	96	89
IOWA	486.05	169.08	72.21	573.1	187.5	103	110	101
KANSAS	445.34	163.94	65.69	577.9	171.6	94	106	92
KENTUCKY	362.24	91.04	38.30	845.8	297.9	77	59	54
LOUISIANA	413.12	161.77	57.00	624.8	155.4	88	105	80
MAINE	367.44	141.32	64.68	468.1	160.0	78	92	91
MARYLAND	498.92	142.23	60.49	724.8	250.8	106	92	85
MASSACHUSETTS	519.72	184.60	88.19	489.3	181.5	110	120	124
MICHIGAN	535.47	173.07	77.01	595.3	209.4	114	112	108
MINNESOTA	528.06	181.78	87.54	503.2	190.5	112	118	123
MISSISSIPPI	323.47	94.99	37.08	772.4	240.5	69	62	52
MISSOURI	377.98	115.45	53.49	606.6	227.4	80	75	75
MONTANA	449.39	168.38	90.12	398.7	166.9	95	109	126
NEBRASKA	478.47	150.06	61.11	683.0	218.9	101	97	86
NEVADA	624.43	232.69	96.11	549.7	168.4	132	151	135
NEW HAMPSHIRE	366.25	147.56	78.98	363.7	148.2	78	96	111
NEW JERSEY	476.43	161.84	87.96	441.6	194.4	101	105	123
NEW MEXICO	475.57	164.22	64.04	642.6	189.6	101	106	90
NEW YORK	680.75	210.49	115.94	487.2	223.4	144	136	162
NORTH CAROLINA	330.71	109.40	45.91	620.3	202.3	70	71	64
NORTH DAKOTA	523.04	190.56	99.01	428.3	174.5	111	123	139
OHIO	390.66	137.41	70.76	452.1	184.3	83	89	99
OKLAHOMA	398.14	157.02	57.44	593.1	153.6	84	102	80
OREGON	504.35	176.73	82.32	512.7	185.4	107	113	115
PENNSYLVANIA	401.47	129.16	73.32	447.6	210.8	85	84	103
RHODE ISLAND	442.01	143.70	70.13	530.3	207.6	94	93	98
SOUTH CAROLINA	291.84	112.70	40.49	620.8	159.0	62	73	57
SOUTH DAKOTA	457.99	164.26	84.02	445.1	178.8	97	106	118
TENNESSEE	322.12	99.88	39.83	708.7	222.5	68	65	56
TEXAS	365.20	128.46	47.51	668.7	184.3	77	83	67
UTAH	423.45	148.69	71.94	488.6	184.8	90	96	101
VERMONT	451.98	145.51	69.26	552.6	210.6	96	94	97
VIRGINIA	384.65	108.53	43.49	784.5	254.4	82	70	61
WASHINGTON	542.18	194.42	82.14	560.1	178.9	115	126	115
WEST VIRGINIA	331.00	98.56	51.66	540.7	235.8	70	64	72
WISCONSIN	534.40	180.50	87.40	511.4	196.1	113	117	122
WYOMING	611.50	207.24	82.94	637.3	195.1	130	134	116

SOURCE: U.S.Census of Governments data.

TABLE 5

PER CAPITA STATE GENERAL REVENUE FROM OWN SOURCES
1942, 1946, 1953 and 1969

States	Per Capita State General Revenue from own sources			Percentage increase		Per Capita as percent of U.S. average		
	1969	1953	1942	1942 to 1969	1953 to 1969	1969	1953	1942
UNITED STATES, TOTAL	$244.31	$ 74.62	$32.12	660.6	227.4	100	100	100
ALABAMA	195.70	59.26	19.52	902.6	230.2	80	79	61
ARIZONA	292.39	98.65	49.63	489.1	196.4	120	132	155
ARKANSAS	184.64	61.62	22.20	731.7	199.6	76	83	69
CALIFORNIA	305.43	101.74	47.50	543.0	200.2	125	136	148
COLORADO	249.57	89.17	39.53	531.3	179.9	102	119	123
CONNECTICUT	221.49	73.75	35.26	528.2	200.3	91	99	110
DELAWARE	375.09	105.07	42.39	784.9	257.0	154	141	132
FLORIDA	224.07	81.82	30.36	638.0	173.9	92	110	95
GEORGIA	204.77	65.80	19.71	938.9	211.2	84	88	61
IDAHO	246.34	79.53	33.03	645.8	209.7	101	107	103
ILLINOIS	197.62	59.62	29.31	574.2	231.5	81	80	91
INDIANA	219.40	76.78	30.75	613.5	185.8	90	103	96
IOWA	251.04	71.33	32.43	674.1	251.9	103	96	101
KANSAS	208.40	77.59	28.12	641.1	168.6	85	104	88
KENTUCKY	240.89	50.52	21.16	1,038.4	376.8	99	68	66
LOUISIANA	279.02	119.41	36.47	665.1	133.7	114	160	114
MAINE	200.40	70.72	30.03	567.3	183.4	82	95	93
MARYLAND	266.06	73.13	26.90	889.1	263.8	109	98	84
MASSACHUSETTS	254.38	71.43	29.77	754.5	256.1	104	96	93
MICHIGAN	301.17	94.53	37.34	706.6	218.6	123	127	116
MINNESOTA	300.70	89.52	43.76	587.2	235.9	123	120	136
MISSISSIPPI	204.51	57.96	20.99	874.3	252.8	84	78	65
MISSOURI	176.45	54.02	23.02	666.5	226.6	72	72	72
MONTANA	212.28	80.39	34.96	507.2	164.1	87	108	109
NEBRASKA	201.08	55.75	22.45	795.7	260.7	82	75	70
NEVADA	316.32	102.53	38.31	725.7	208.5	129	137	119
NEW HAMPSHIRE	156.26	60.15	32.37	382.7	159.8	64	81	101
NEW JERSEY	198.44	43.96	25.42	680.6	351.4	81	59	79
NEW MEXICO	342.14	127.55	47.56	619.4	168.2	140	171	148
NEW YORK	330.62	76.86	39.02	747.3	330.2	135	103	121
NORTH CAROLINA	228.09	75.40	30.59	645.6	202.5	93	101	95
NORTH DAKOTA	298.44	110.72	50.96	485.6	169.5	122	148	159
OHIO	174.50	62.50	34.42	407.0	179.2	71	84	107
OKLAHOMA	248.61	105.02	36.10	588.7	136.7	102	141	112
OREGON	255.02	90.03	37.85	573.8	183.3	104	121	118
PENNSYLVANIA	214.17	61.77	31.55	578.8	246.7	88	83	98
RHODE ISLAND	263.17	73.74	24.76	962.9	256.9	108	99	77
SOUTH CAROLINA	204.90	78.34	25.07	717.3	161.6	84	105	78
SOUTH DAKOTA	204.32	72.08	35.15	481.3	183.5	84	97	109
TENNESSEE	183.62	59.40	19.87	824.1	209.1	75	80	62
TEXAS	190.28	63.74	23.46	711.1	198.5	78	85	73
UTAH	250.94	77.07	39.55	534.5	225.6	103	103	123
VERMONT	282.37	78.34	34.91	708.9	260.4	116	105	109
VIRGINIA	237.08	64.51	26.27	802.5	267.5	97	86	82
WASHINGTON	338.32	120.30	51.33	559.1	181.2	138	161	160
WEST VIRGINIA	226.44	67.81	33.29	580.2	233.9	93	91	104
WISCONSIN	304.01	79.25	39.99	660.2	283.6	124	106	125
WYOMING	339.91	113.36	38.10	792.2	199.9	139	152	119

SOURCE: U.S. Census of Governments Data.

TABLE 6

PER CAPITA LOCAL GENERAL REVENUE FROM OWN SOURCES
1942, 1953 and 1969

States	Per Capita local general revenue from own sources			Percentage increase		Per capita as percent of U.S. average		
	1969	1953	1942	1942 to 1969	1953 to 1969	1969	1953	1942
UNITED STATES, TOTAL	$227.44	$ 79.78	$39.27	479.2	185.1	100	100	100
ALABAMA	122.01	34.39	12.46	879.2	254.8	54	43	32
ARIZONA	195.63	67.49	27.44	612.9	189.9	86	85	70
ARKANSAS	108.07	32.28	10.91	890.6	234.8	48	40	28
CALIFORNIA	354.05	111.10	51.28	590.4	218.7	156	139	131
COLORADO	251.38	93.96	45.73	449.7	167.5	111	118	116
CONNECTICUT	243.33	86.75	50.26	384.1	180.5	107	109	128
DELAWARE	144.63	40.47	19.41	645.1	257.4	64	51	49
DIST. OF COLUMBIA	484.46	144.92	59.49	714.4	234.3	213	182	151
FLORIDA	207.08	74.95	32.99	527.7	176.3	91	94	84
GEORGIA	158.24	47.45	16.34	868.4	233.5	70	59	42
IDAHO	170.10	85.53	42.44	300.8	98.9	75	107	108
ILLINOIS	245.72	88.87	48.69	404.7	176.5	108	111	124
INDIANA	206.33	71.80	32.49	535.1	187.4	91	90	83
IOWA	235.01	97.75	39.77	490.9	140.4	103	123	101
KANSAS	236.94	86.35	37.57	530.7	174.4	104	102	96
KENTUCKY	121.35	40.52	17.15	607.6	199.5	53	51	44
LOUISIANA	134.10	42.36	20.53	553.2	216.6	59	53	52
MAINE	167.04	70.60	34.65	382.1	136.6	73	88	88
MARYLAND	232.86	69.10	33.58	593.4	237.0	102	87	86
MASSACHUSETTS	265.34	113.17	58.42	354.2	134.5	117	142	149
MICHIGAN	234.30	78.54	39.67	490.6	198.3	103	98	101
MINNESOTA	227.36	92.26	43.78	419.3	146.4	100	116	111
MISSISSIPPI	118.96	37.03	16.09	639.3	221.3	52	46	41
MISSOURI	201.53	61.43	30.46	561.6	228.1	89	77	78
MONTANA	237.11	87.99	55.15	329.9	169.5	104	110	140
NEBRASKA	277.39	94.31	38.66	617.5	194.1	122	118	98
NEVADA	308.11	130.16	57.80	433.1	136.7	135	163	147
NEW HAMPSHIRE	209.99	87.41	46.61	350.5	140.2	92	110	119
NEW JERSEY	277.99	117.88	62.53	344.6	135.8	122	148	159
NEW MEXICO	133.43	36.67	16.47	710.1	263.9	59	46	42
NEW YORK	350.13	133.63	76.93	355.1	162.0	154	167	196
NORTH CAROLINA	102.62	34.00	15.32	569.8	201.8	45	43	39
NORTH DAKOTA	224.60	79.84	48.05	367.4	181.3	99	100	122
OHIO	216.16	74.91	36.34	494.8	188.6	95	94	93
OKLAHOMA	149.53	52.00	21.34	600.7	187.6	66	65	54
OREGON	249.33	86.70	44.47	460.7	187.6	110	109	113
PENNSYLVANIA	187.30	67.39	41.78	348.3	177.9	82	84	106
RHODE ISLAND	178.84	69.96	45.37	294.2	155.6	79	88	116
SOUTH CAROLINA	86.94	34.36	15.42	463.8	153.0	38	43	39
SOUTH DAKOTA	253.67	92.18	48.87	419.1	175.2	112	116	124
TENNESSEE	138.50	40.48	19.96	593.9	242.1	61	51	51
TEXAS	174.92	64.72	24.05	627.3	170.3	77	81	61
UTAH	172.51	71.62	32.39	432.6	140.9	76	90	82
VERMONT	169.61	67.17	34.34	393.9	152.5	75	84	87
VIRGINIA	147.57	44.02	17.22	757.0	235.2	65	55	44
WASHINGTON	203.86	74.12	30.81	561.7	175.0	90	93	78
WEST VIRGINIA	104.56	30.75	18.36	469.5	240.0	46	39	47
WISCONSIN	230.39	101.25	47.40	386.1	127.5	101	127	121
WYOMING	271.59	93.88	44.84	505.7	189.3	119	118	114

SOURCE: U.S. Census of Governments Data.

TABLE 7 – PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM FEDERAL AID, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970	1967	1962	1957	1953	1942
UNITED STATES, Total	16.7	16.9	13.5	10.1[1]	10.5[1]	8.2[1]
Alabama	26.2	24.6	24.0	19.9	17.8	11.5
Alaska	8.5	51.8	33.8	(24.4)	n.a.	n.a.
Arizona	18.3	21.6	16.6	12.8	14.4	15.2
Arkansas	25.4	27.8	24.[illegible]	18.8	22.2	11.4
California	19.2	19.0	14.[illegible]	10.7	11.4	8.2
Colorado	18.7	18.7	16.2	14.7	15.1	14.4
Connecticut	13.0	13.5	10.7	5.4	6.6	6.2
Delaware	12.7	13.4	9.8	9.1	9.8	10.6
Dist. of Columbia	37.6	31.8	26.8	18.0	12.6	15.4
Florida	13.0	14.9	11.0	10.0	9.8	8.2
Georgia	19.0	21.0	19.6	14.3	17.6	10.1
Hawaii	21.3	23.2	19.4	(14.6)	n.a.	n.a.
Idaho	20.4	18.8	21.4	15.9	15.5	14.8
Illinois	14.2	13.5	11.2	6.9	8.5	6.9
Indiana	12.5	12.3	10.8	6.8	7.5	9.1
Iowa	14.2	15.0	12.4	9.8	9.6	7.7
Kansas	15.8	14.9	13.0	11.7	12.7	10.7
Kentucky	22.8	27.0	20.3	14.5	17.2	11.0
Louisiana	20.5	21.2	19.7	14.8	17.1	9.3
Maine	18.2	19.2	15.7	12.1	10.9	9.6
Maryland	13.4	12.8	12.2	8.4	7.9	6.7
Massachusetts	15.8	14.0	11.0	7.2	7.9	7.0
Michigan	13.8	14.6	11.2	7.9	8.3	7.1
Minnesota	15.5	16.4	12.2	9.8	9.6	9.1
Mississippi	24.3	25.4	20.7	17.0	18.5	12.9
Missouri	18.6	18.5	17.9	16.5	18.1	12.0
Montana	25.7	24.7	20.9	17.7	17.6	12.5
Nebraska	13.9	18.4	15.0	12.1	11.2	11.8
Nevada	18.4	24.0	18.2	17.4	19.6	25.8
New Hampshire	17.4	16.9	17.9	9.3	9.6	9.3
New Jersey	12.3	11.2	8.7	4.6	5.0	4.2
New Mexico	27.4	30.1	22.3	22.5	18.0	13.3
New York	13.6	11.1	7.1	5.5	5.4	3.8
North Carolina	17.2	18.2	15.1	16.3	11.6	8.1
North Dakota	18.6	19.8	16.5	12.3	13.0	8.9
Ohio	14.0	14.4	12.7	8.0	7.9	8.2
Oklahoma	24.8	24.9	21.5	17.5	19.0	14.4
Oregon	20.3	19.3	18.8	13.9	12.7	11.8
Pennsylvania	15.1	14.6	11.0	6.4	7.4	8.3
Rhode Island	20.4	19.7	13.8	12.2	10.6	6.5
South Carolina	19.3	19.2	17.6	13.3	14.4	15.1
South Dakota	21.3	21.7	23.7	16.6	16.2	11.4
Tennessee	22.4	23.8	20.3	14.3	17.3	10.5
Texas	17.9	18.0	13.8	12.8	12.6	9.7
Utah	25.4	25.9	19.9	14.6	17.6	17.3
Vermont	22.6	25.0	28.8	13.1	12.9	10.8
Virginia	17.0	18.5	16.1	9.3	10.7	8.7
Washington	16.6	16.0	14.2	11.2	12.3	14.5
West Virginia	28.6	27.0	19.2	12.7	16.1	11.4
Wisconsin	11.8	12.3	11.2	7.1	7.7	6.9
Wyoming	28.3	31.4	30.7	24.9	20.5	16.8

[1] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 8 – PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM TAXES, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970	1967	1962	1957	1953	1942
UNITED STATES, Total	66.4	66.9	71.3	75.5[1]	76.6[1]	81.9[1]
Alabama	51.7	54.5	57.4	62.6	65.5	76.4
Alaska	10.0	29.6	38.6	(61.9)	n.a.	n.a.
Arizona	64.3	61.8	66.8	69.6	69.7	72.1
Arkansas	55.6	56.8	60.7	66.5	65.5	75.3
California	65.5	66.3	72.2	75.7	74.5	80.3
Colorado	62.8	63.4	67.4	69.6	71.3	74.6
Connecticut	74.6	73.8	76.9	83.0	82.2	87.9
Delaware	65.0	62.6	71.9	65.5	62.0	80.6
Dist. of Columbia	54.2	59.7	62.8	73.6	79.4	77.0
Florida	65.9	64.8	69.6	72.2	77.1	77.9
Georgia	53.7	60.0	62.4	69.1	68.8	77.7
Hawaii	64.8	63.2	64.1	(70.1)	n.a.	n.a.
Idaho	61.4	63.0	62.8	68.2	70.2	69.7
Illinois	74.0	72.7	77.0	82.3	83.3	87.3
Indiana	67.8	69.5	72.0	77.2	80.9	82.7
Iowa	68.6	68.0	72.8	77.2	77.9	80.8
Kansas	65.0	67.4	71.8	74.6	77.6	81.7
Kentucky	58.9	55.1	64.2	70.8	71.3	79.1
Louisiana	56.8	58.2	60.9	62.7	68.1	76.5
Maine	69.8	67.8	73.8	77.1	80.8	84.3
Maryland	71.2	72.3	72.9	76.6	78.3	82.6
Massachusetts	73.6	74.9	78.9	83.5	83.4	86.4
Michigan	68.3	67.0	73.3	77.2	77.4	80.6
Minnesota	65.0	65.7	71.0	74.0	74.9	76.3
Mississippi	57.1	55.6	61.9	67.7	70.4	77.3
Missouri	65.4	66.1	69.7	72.0	73.1	80.1
Montana	58.4	58.9	64.0	68.1	65.9	72.5
Nebraska	64.6	61.3	66.0	71.9	73.2	75.4
Nevada	60.8	56.5	62.1	64.1	61.6	63.4
New Hampshire	66.8	68.0	69.5	77.5	78.2	81.1
New Jersey	74.2	74.9	77.7	81.7	83.1	87.7
New Mexico	50.2	48.2	54.4	53.2	59.0	67.5
New York	73.4	74.7	79.0	81.4	82.9	88.5
North Carolina	65.9	65.8	69.0	69.5	77.0	81.9
North Dakota	55.4	50.6	59.5	64.5	62.8	69.9
Ohio	66.4	66.7	70.7	76.0	76.4	81.1
Oklahoma	53.2	55.1	60.9	65.9	68.3	77.5
Oregon	60.0	61.0	63.2	72.3	73.2	75.5
Pennsylvania	71.5	71.6	75.4	81.8	81.2	83.0
Rhode Island	67.6	68.9	77.4	79.0	80.8	88.0
South Carolina	63.0	63.0	65.0	69.7	73.1	75.3
South Dakota	61.2	60.9	61.1	67.7	70.8	71.2
Tennessee	59.0	59.5	64.9	71.6	71.8	80.9
Texas	62.1	61.9	67.8	68.7	69.4	76.9
Utah	57.7	58.4	66.3	71.2	69.9	74.6
Vermont	65.2	63.4	62.9	77.5	82.0	83.5
Virginia	66.1	65.8	66.0	74.0	73.7	77.3
Washington	62.9	63.8	66.3	71.0	70.4	74.3
West Virginia	56.9	58.2	67.8	74.4	74.5	81.6
Wisconsin	73.4	72.9	75.1	80.5	79.7	79.6
Wyoming	48.5	48.1	50.5	56.1	62.5	65.8

[1] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 9 – PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM PROPERTY TAXES, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970	1967	1962	1957	1953	1942
UNITED STATES, Total	26.1	28.6	32.7	33.7[1]	34.3[1]	43.5[1]
Alabama	7.9	9.7	11.6	12.6	15.7	24.8
Alaska	2.4	7.3	8.8	(13.6)	n.a.	n.a.
Arizona	25.0	28.1	31.9	32.3	30.8	34.8
Arkansas	14.3	14.8	17.2	17.6	16.3	23.1
California	30.7	34.1	36.2	35.8	34.5	40.1
Colorado	26.8	29.1	32.1	35.4	34.4	42.2
Connecticut	36.7	38.4	41.2	41.5	43.7	50.5
Delaware	12.1	12.4	14.7	15.7	18.3	23.0
Dist. of Columbia	17.7	20.2	23.2	27.1	35.9	43.3
Florida	22.4	26.1	28.7	25.6	26.7	34.8
Georgia	18.2	18.8	19.9	20.0	20.8	32.0
Hawaii	11.1	12.8	10.3	(11.1)	n.a.	n.a.
Idaho	22.4	23.2	30.5	34.3	35.3	43.3
Illinois	30.5	35.5	41.2	42.5	43.3	48.4
Indiana	31.9	33.6	40.5	42.4	39.7	45.6
Iowa	33.5	34.3	41.2	37.7	42.8	44.7
Kansas	33.3	33.9	40.2	43.3	41.0	49.8
Kentucky	13.5	14.9	19.4	25.7	28.4	37.2
Louisiana	11.2	11.9	13.8	13.7	15.2	25.7
Maine	31.9	32.9	39.0	38.5	41.3	52.8
Maryland	23.1	29.8	30.4	32.6	33.2	47.7
Massachusetts	37.0	38.8	47.8	48.4	48.4	58.1
Michigan	27.5	29.4	36.1	35.6	34.1	42.6
Minnesota	25.1	32.6	39.0	38.3	38.4	43.0
Mississippi	13.7	15.4	18.5	18.6	22.0	31.7
Missouri	26.2	27.0	29.7	32.0	31.0	39.8
Montana	31.7	33.0	36.3	39.7	36.0	49.6
Nebraska	34.0	44.3	46.6	50.3	52.5	52.1
Nevada	20.9	22.6	20.3	23.1	30.0	38.9
New Hampshire	41.6	43.1	44.2	48.7	46.5	49.1
New Jersey	40.1	42.7	50.3	52.3	55.8	66.0
New Mexico	11.3	10.8	13.7	12.4	12.5	23.1
New York	26.7	29.4	35.1	38.8	37.7	51.6
North Carolina	16.7	17.4	19.2	18.6	21.3	25.6
North Dakota	25.8	25.8	31.4	34.1	31.6	46.9
Ohio	31.4	34.5	36.6	36.5	36.1	38.8
Oklahoma	16.2	18.1	19.0	20.0	19.9	27.7
Oregon	28.3	28.9	30.0	30.7	31.8	39.1
Pennsylvania	21.1	24.1	26.2	27.3	31.8	42.4
Rhode Island	27.4	31.4	37.0	39.8	36.6	55.1
South Carolina	14.1	13.4	15.8	16.0	17.8	27.8
South Dakota	33.6	34.1	35.7	39.4	40.1	43.8
Tennessee	16.2	17.4	21.6	20.7	21.9	35.7
Texas	25.2	28.1	30.7	31.7	32.1	42.6
Utah	20.8	24.1	29.3	31.2	31.7	39.7
Vermont	22.8	25.4	28.4	34.8	36.7	42.1
Virginia	18.7	19.8	23.7	23.0	25.7	30.6
Washington	22.1	19.6	20.5	21.0	21.2	25.0
West Virginia	13.3	15.5	18.4	18.9	18.0	26.7
Wisconsin	31.8	30.4	41.8	41.7	44.2	44.5
Wyoming	23.0	26.3	27.0	28.8	30.8	35.9

[1] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 10 – PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM INDIVIDUAL INCOME TAXES, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970[1]	1967	1962	1957	1953	1942
UNITED STATES, Total	8.2	6.4	5.2	4.6[2,3]	3.9[2,4]	2.6[2,5]
Alabama	5.1	4.9	4.0	6.2[6]	5.1[6]	1.9
Alaska	2.6	7.8	9.0	(14.7)	n.a.	n.a.
Arizona	5.5	3.1	3.0	5.7[6]	3.3	1.7
Arkansas	4.9	4.5	2.9	2.0	1.8	1.5
California	6.8	4.3	4.2	3.3	3.2	3.5
Colorado	8.8	7.3	8.1	5.1	4.4	2.8
Connecticut	0.2	–	–	–	–	–
Delaware	18.5	19.1	22.2	16.1	5.4	7.9
Dist. of Columbia	11.5	10.7	9.6	13.4[6]	9.5[6]	9.3[6]
Florida	–	–	–	–	–	–
Georgia	7.7	5.9	4.3	3.8	2.8	3.5
Hawaii	15.4	13.4	11.2	(10.6)	n.a.	n.a.
Idaho	9.1	9.6	9.9	6.9	5.8	2.1
Illinois	7.9	–	–	–	–	–
Indiana	7.9	7.5	–	–	–	–
Iowa	6.3	7.9	4.8	4.5	3.7	3.6
Kansas	5.7	6.7	3.8	2.7	3.2	2.0
Kentucky	11.9	9.8	8.2	12.3	9.0	3.2
Louisiana	2.3	2.2	1.8	3.7[6]	3.3[6]	2.3
Maine	3.5	–	–	–	–	–
Maryland	22.7	13.3	10.1	8.5	6.3	4.1
Masschusetts	13.5	10.0	9.9	9.1	7.8	5.1
Michigan	9.6	1.5	–	–	–	–
Minnesota	13.4	13.0	10.0	7.9	7.6	3.9
Mississippi	3.8	1.3	1.6	1.7	2.2	2.5
Missouri	7.9	7.4	7.9	6.2[6]	5.0[6]	3.2[6]
Montana	8.2	6.7	5.6	4.1	3.9	1.6
Nebraska	4.9	–	–	–	–	–
Nevada	–	–	–	–	–	–
New Hampshire	1.0	1.0	0.9	1.4	1.4	1.6
New Jersey	0.4	0.4	0.3	–	–	–
New Mexico	4.9	2.1	2.6	2.2[6]	1.4	2.2[6]
New York	18.3	16.5	14.3	10.4	9.8	6.2
North Carolina	11.3	11.0	8.9	7.3	7.2	3.5
North Dakota	3.7	3.1	2.9	2.1	2.6	1.5[6]
Ohio	4.0	3.0	2.6	2.9	1.3	–
Oklahoma	3.4	2.8	3.9	2.4	2.2	2.4
Oregon	15.3	14.8	13.7	19.1	13.2	6.9
Pennsylvania	5.2	5.0	4.9	4.2	3.7	2.7
Rhode Island	3.2	–	–	–	–	–
South Carolina	8.5	7.7	5.8	4.6	4.3	2.5
South Dakota	–	–	–	–	–	0.7
Tennessee	0.7	0.7	0.8	0.8	0.9	1.4
Texas	–	–	–	–	–	–
Utah	8.9	7.8	5.5	5.2	3.9	2.6
Vermont	13.6	11.9	8.7	10.9	9.7	3.1
Virginia	11.8	11.8	9.7	16.0	7.9	2.2
Washington	–	–	–	–	–	–
West Virginia	4.3	3.9	4.6	–	–	2.4
Wisconsin	16.0	17.7	11.1	12.5	9.3	4.9
Wyoming	–	–	–	–	–	–

Note: Includes minor amounts of local corporation income taxes. Separation not available.

[1] Distribution of local government receipts by State partially estimated.
[2] Excluding Alaska and Hawaii.
[3] Includes corporation income taxes for Alabama, Arizona, District of Columbia, Louisiana, Missouri, and New Mexico.
[4] Includes corporation income taxes for Alabama, District of Columbia, Louisiana, and Missouri.
[5] Includes corporation income taxes for District of Columbia, Missouri, New Mexico, and North Dakota.
[6] Includes corporation income taxes.

Source: Bureau of the Census, Governments Division, various reports.

TABLE 11. PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM CORPORATION INCOME TAXES, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970	1967	1962	1957	1953	1942
UNITED STATES, Total	2.9	2.5	2.3	2.6[1,2]	3.0[1,3]	2.6[1,4]
Alabama	1.8	2.4	1.3	[5]	[5]	1.8
Alaska	0.4	1.2	1.3	(2.2)	n.a.	n.a.
Arizona	1.8	1.7	1.1	[5]	2.0	2.5
Arkansas	3.0	3.6	2.5	3.6	3.9	1.7
California	3.5	3.9	4.1	3.8	4.1	4.1
Colorado	2.3	2.4	2.9	1.0	1.8	1.1
Connecticut	6.1	6.0	4.3	5.4	5.5	6.3
Delaware	3.5	4.5	4.7	–	–	–
Dist. of Columbia	4.5	3.2	3.5	[5]	[5]	[5]
Florida	–	–	–	–	–	–
Georgia	3.5	3.8	2.5	3.2	2.9	5.3
Hawaii	2.1	2.2	2.7	(2.9)	n.a.	n.a.
Idaho	2.8	2.9	2.4	2.8	3.0	3.5
Illinois	1.9	–	–	–	–	–
Indiana	0.3	0.7	–	–	–	–
Iowa	1.4	0.9	0.5	0.6	0.5	0.6
Kansas	1.4	2.2	1.2	0.9	0.9	1.0
Kentucky	2.4	3.3	2.9	3.8	3.0	2.8
Louisiana	1.6	2.1	2.2	[5]	[5]	2.5
Maine	1.5	–	–	–	–	–
Maryland	2.3	2.2	2.0	3.2	4.1	1.3
Massachusetts	5.7[6]	2.1	1.8	2.5	2.6	0.2
Michigan	3.3	–	–	–	–	–
Minnesota	3.1	3.6	2.9	2.7	2.6	2.9
Mississippi	1.7	2.0	2.6	4.0	3.6	2.9
Missouri	0.9	0.8	1.0	[5]	[5]	[5]
Montana	2.0	2.1	1.8	1.3	1.3	2.9
Nebraska	0.9	–	–	–	–	–
Nevada	–	–	–	–	–	–
New Hampshire	–	–	–	–	–	–
New Jersey	3.9	1.6	1.3	–	–	–
New Mexico	1.1	1.1	1.1	[5]	0.7	[5]
New York	4.3	3.9	4.3	5.5	6.6	5.1
North Carolina	4.7	5.7	5.3	6.3	7.4	9.2
North Dakota	0.7	0.9	0.8	0.7	0.7	[5]
Ohio	–	–	–	–	–	–
Oklahoma	1.9	1.9	1.9	2.0	2.1	3.0
Oregon	2.9	3.1	3.2	4.3	5.7	4.6
Pennsylvania	8.0	5.4	4.8	7.6	9.6	5.5
Rhode Island	4.0	4.5	3.9	4.8	5.9	–
South Carolina	3.8	5.3	3.5	4.9	5.0	6.5
South Dakota	0.2	0.2	0.2	0.1	0.1	0.6
Tennessee	3.2	3.1	2.6	3.5	4.1	2.3
Texas	–	–	–	–	–	–
Utah	1.7	2.1	2.3	4.3	2.2	2.3
Vermont	1.8	2.3	1.7	2.7	3.7	2.1
Virginia	2.8	3.0	3.2	4.1	4.8	4.3
Washington	–	–	–	–	–	–
West Virginia	0.4	–	–	–	–	–
Wisconsin	3.4	4.9	4.1	6.3	7.4	7.9
Wyoming	–	–	–	–	–	–

Note: Minor amounts of local corporation income taxes (other than D.C.) included with individual income taxes. Separation not available.

[1] Excluding Alaska and Hawaii.
[2] Combined corporation and individual income taxes are tabulated with individual income taxes for Alabama, Arizona, District of Columbia, Louisiana and Missouri.
[3] Combined corporation and individual income taxes are tabulated with individual income taxes for Alabama, District of Columbia, Louisiana and Missouri.
[4] Combined corporation and individual income taxes are tabulated with individual income taxes for District of Columbia, Missouri, New Mexico and North Dakota.
[5] Combined corporation and individual income taxes are tabulated with individual income taxes.
[6] Includes portion of the corporation excise taxes and surtaxes measured by corporate excess. Separation not available.

Source: Bureau of the Census, Governments Division, various reports.

TABLE 12- PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM GENERAL SALES AND GROSS RECEIPTS TAXES, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970[1]	1967	1962	1957	1953	1942[2]
UNITED STATES, Total	12.3	11.1	10.4	10.6[3]	10.5[3]	6.1[3]
Alabama	14.9	16.5	14.6	15.1	16.0	8.8
Alaska	0.5	1.7	2.6	(4.1)	n.a.	n.a.
Arizona	18.3	15.0	17.2	14.6	14.1	11.2
Arkansas	12.5	12.8	14.5	13.3	13.1	10.9
California	13.2	11.9	13.9	17.3	17.5	16.1
Colorado	12.2	11.2	9.4	10.6	12.2	9.3
Connecticut	13.1	10.9	11.0	14.2	10.2	–
Delaware	–	–	–	–	–	–
Dist. of Columbia	9.9	9.4	8.8	10.5	11.0	–
Florida	18.4	12.0	11.9	10.9	10.9	–
Georgia	14.0	14.2	15.6	18.3	19.9	–
Hawaii	23.9	21.9	24.3	(26.5)	n.a.	n.a.
Idaho	10.3	10.1	–	–	–	–
Illinois	16.0	17.7	16.3	16.3	14.1	12.7
Indiana	13.9	14.2	15.5	15.0	21.3	13.8
Iowa	12.4	8.4	9.5	13.7	12.2	11.1
Kansas	10.7	11.1	11.0	10.4	12.6	10.1
Kentucky	16.4	11.1	13.3	–	–	–
Louisiana	13.1	12.4	10.1	12.0	12.1	0.1
Maine	15.4	14.6	11.0	9.4	9.7	–
Maryland	8.9	8.4	9.3	7.6	8.0	–
Massachusetts	4.4	4.8	–	–	–	–
Michigan	14.0	16.8	17.8	18.2	21.0	18.0
Minnesota	7.6	–	–	–	–	–
Mississippi	19.8	17.2	16.8	17.1	13.8	10.5
Missouri	14.1	14.1	10.9	13.1	15.4	12.7
Montana	–	–	–	–	–	–
Nebraska	8.2	–	–	–	–	–
Nevada	13.2	8.0	9.9	10.5	–	–
New Hampshire	–	–	–	–	–	–
New Jersey	8.3	7.0	–	–	–	–
New Mexico	13.1	13.9	12.7	15.6	17.3	14.0
New York	9.8	9.6	8.2	8.8	10.0	–
North Carolina	11.0	11.7	12.3	10.2	10.7	8.8
North Dakota	10.2	6.7	6.5	8.5	9.3	6.9
Ohio	12.0	9.4	9.4	12.7	14.8	12.0
Oklahoma	11.5	7.7	8.0	9.5	10.5	9.2
Oregon	–	–	–	–	–	–
Pennsylvania	14.3	14.1	13.2	8.7	0.2	0.5
Rhode Island	13.7	12.6	10.9	9.2	10.2	–
South Carolina	17.1	14.0	14.5	15.2	15.6	–
South Dakota	11.0	9.2	6.9	7.8	9.6	6.5
Tennessee	16.8	16.2	13.8	16.4	12.8	–
Texas	12.6	6.5	5.4	–	–	–
Utah	14.7	12.4	13.5	12.2	12.7	10.6
Vermont	5.3	–	–	–	–	–
Virginia	11.6	8.1	0.1	0.1	0.2	–
Washington	22.7	24.5	25.1	27.3	25.3	22.0
West Virginia	19.7	18.5	21.6	26.8	27.8	29.0
Wisconsin	8.9	4.7	1.1	–	–	–
Wyoming	10.4	8.5	7.6	8.9	10.8	8.4

[1] Distribution of local government receipts by State partially estimated.
[2] Distribution by State of local general and selective sales and gross receipts taxes ($123 million) is not available for 1942 and are included in the miscellaneous taxes category.
[3] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 13 – PERCENTAGE AT STATE-LOCAL GENERAL REVENUE FROM SELECTIVE SALES AND GROSS RECEIPTS TAXES, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970[1]	1967	1962	1957	1953	1942[2]
UNITED STATES, Total	10.9	11.4	12.7	14.3[3]	14.9[3]	15.2[3]
Alabama	16.5	15.5	18.9	20.6	18.4	22.7
Alaska	1.6	5.6	8.1	(13.7)	n.a.	n.a.
Arizona	10.9	10.0	9.6	12.0	14.4	16.4
Arkansas	14.6	14.3	15.8	19.7	20.2	27.1
California	8.0	8.0	8.9	10.1	9.8	10.2
Colorado	8.2	8.6	8.7	10.3	12.1	10.7
Connecticut	13.1	12.4	14.6	14.5	14.9	18.0
Delaware	11.3	11.7	13.8	15.7	17.6	21.1
Dist. of Columbia	9.1	11.5	12.4	15.7	17.3	16.5
Florida	17.6	17.3	19.3	24.4	27.5	26.5
Georgia	12.4	13.7	15.5	18.6	17.9	28.1
Hawaii	9.2	9.5	11.9	(14.1)	n.a.	n.a.
Idaho	9.7	9.8	11.1	14.3	15.0	15.8
Illinois	11.9	12.6	12.2	14.2	15.9	15.1
Indiana	10.1	9.6	11.1	12.7	12.5	15.0
Iowa	8.7	9.7	9.6	11.5	9.2	10.9
Kansas	9.5	8.6	9.5	11.1	12.6	11.1
Kentucky	11.7	12.1	15.0	21.7	23.3	26.1
Louisiana	11.5	11.5	13.7	17.5	20.0	25.0
Maine	12.1	13.7	15.9	19.5	19.3	18.6
Maryland	10.2	13.2	14.8	17.3	17.8	18.1
Massachusetts	9.3	10.8	10.5	11.8	12.5	10.5
Michigan	8.2	9.4	9.6	10.8	10.4	9.7
Minnesota	10.5	10.4	11.5	13.7	15.0	15.1
Mississippi	12.4	13.5	14.7	17.1	19.8	21.4
Missouri	10.0	10.0	11.9	11.8	12.1	10.0
Montana	10.2	10.4	12.6	13.7	15.1	12.5
Nebraska	10.8	12.3	13.0	14.8	15.2	17.4
Nevada	18.2	16.3	18.4	18.0	17.8	11.7
New Hampshire	17.1	15.7	15.7	15.8	16.7	17.1
New Jersey	13.3	15.2	17.0	18.6	16.8	10.7
New Mexico	10.2	9.7	11.9	12.8	16.1	16.0
New York	8.6	9.6	10.8	10.7	11.5	11.9
North Carolina	16.0	13.8	16.0	18.6	20.6	21.5
North Dakota	8.3	7.7	9.3	10.8	11.3	9.5
Ohio	12.0	12.9	14.5	15.4	15.2	20.2
Oklahoma	13.2	13.3	15.2	16.7	18.3	19.7
Oregon	6.9	7.9	7.7	8.9	11.6	14.9
Pennsylvania	12.4	12.4	14.0	14.8	17.6	15.2
Rhode Island	13.8	14.2	18.5	17.9	19.8	17.2
South Carolina	15.5	17.7	20.0	22.4	23.8	31.2
South Dakota	10.9	11.0	11.2	11.4	13.7	12.7
Tennessee	13.6	14.0	16.3	19.8	21.9	27.5
Texas	14.0	14.7	16.3	17.4	17.3	21.1
Utah	7.9	7.8	9.6	11.2	12.2	10.9
Vermont	15.2	15.6	15.2	16.3	18.7	19.7
Virginia	14.1	14.8	19.3	19.4	21.5	24.7
Washington	13.1	13.9	14.8	15.7	17.9	18.2
West Virginia	13.0	13.5	15.7	19.2	20.0	12.9
Wisconsin	8.8	9.9	10.8	12.4	10.7	12.8
Wyoming	7.6	7.0	7.7	10.0	12.5	13.5

[1] Distribution of local government receipts by State partially estimated.
[2] Distribution by State of local general and selective sales and gross receipts taxes ($123 million) is not available for 1942 and are included in the miscellaneous taxes category.
[3] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 14 – PERCENTAGE OF STATE-LOCAL GOVERNMENT REVENUE FROM MISCELLANEOUS TAXES (OTHER THAN INCOME, SALES AND PROPERTY) BY STATE, SELECTED YEARS, 1942 THROUGH 1970

States	1970	1967	1962	1957	1953	1942[1]
UNITED STATES, Total	6.0	7.0	8.0	9.8[2]	10.0[2]	11.9[2]
Alabama	5.5	5.7	7.0	8.1	10.2	16.4
Alaska	2.5	5.9	8.8	(13.7)	n.a.	n.a.
Arizona	2.8	3.8	4.0	5.1	5.1	5.5
Arkansas	6.3	6.7	7.9	10.3	10.2	11.0
California	3.3	4.2	4.9	5.4	5.4	6.3
Colorado	4.5	4.8	6.1	7.3	6.5	8.5
Connecticut	5.4	6.0	5.8	7.4	8.0	13.1
Delaware	19.6	14.8	16.4	17.8	20.8	28.6
Dist. of Columbia	1.5	4.6	5.3	6.8	5.7	7.9
Florida	7.5	9.3	9.7	11.4	11.9	16.6
Georgia	3.9	3.7	4.5	5.1	4.4	8.8
Hawaii	3.1	3.4	3.7	(4.9)	n.a.	n.a.
Idaho	7.1	7.5	8.9	10.1	11.0	5.0
Illinois	5.8	6.9	7.4	9.2	10.2	11.1
Indiana	3.7	3.8	4.9	7.2	7.4	8.3
Iowa	6.3	6.9	7.3	9.3	9.6	9.9
Kansas	4.4	4.9	6.0	6.2	7.3	7.7
Kentucky	3.0	4.0	5.3	7.4	7.6	9.8
Louisiana	17.1	18.1	19.4	15.8	17.5	20.9
Maine	5.4	6.6	7.9	9.7	10.5	12.9
Maryland	4.0	5.4	6.2	7.4	8.9	11.4
Massachusetts	3.7	8.3	8.9	11.7	12.1	12.5
Michigan	5.7	10.0	9.8	12.6	11.9	10.3
Minnesota	5.3	6.1	7.6	11.4	11.1	11.4
Mississippi	5.7	6.2	7.8	9.1	9.0	8.3
Missouri	6.3	6.7	8.2	9.0	9.6	14.4
Montana	6.3	6.7	7.7	9.4	9.5	5.9
Nebraska	5.8	4.7	6.5	6.7	5.5	5.9
Nevada	8.5	9.7	13.5	12.4	13.8	12.8
New Hampshire	7.1	8.1	8.7	11.6	13.5	13.3
New Jersey	8.2	8.1	8.8	10.8	10.4	11.0
New Mexico	9.6	10.6	12.3	10.2	10.9	12.2
New York	5.7	5.7	6.3	7.1	7.3	13.7
North Carolina	6.2	6.1	7.3	8.5	9.8	13.3
North Dakota	6.7	6.2	8.6	8.4	7.4	5.1
Ohio	7.0	6.9	7.6	8.5	9.0	10.1
Oklahoma	7.0	11.2	12.9	15.4	15.3	15.5
Oregon	6.6	6.3	8.6	9.4	10.9	10.0
Pennsylvania	10.5	10.6	12.3	19.3	18.3	16.7
Rhode Island	5.5	6.1	7.1	7.4	8.3	15.7
South Carolina	4.0	4.8	5.4	6.6	6.7	7.3
South Dakota	5.5	6.4	7.1	9.0	7.3	6.9
Tennessee	8.5	8.1	9.7	10.4	10.3	14.0
Texas	10.3	12.6	15.4	19.6	20.0	13.2
Utah	3.7	4.2	6.1	7.1	7.2	8.5
Vermont	6.5	8.2	8.9	12.7	13.2	16.5
Virginia	7.1	8.2	10.0	11.5	13.6	15.5
Washington	5.0	5.7	5.9	6.9	6.0	9.1
West Virginia	6.2	6.7	7.4	9.5	8.7	10.6
Wisconsin	4.5	5.3	6.2	7.5	8.0	9.5
Wyoming	7.5	6.3	8.2	8.3	8.4	8.0

[1] Includes $123 million local general and selective sales and gross receipts taxes. Distribution by State is not available.
[2] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 15 – PERCENTAGE OF STATE-LOCAL GENERAL REVENUE FROM CHARGES AND MISCELLANEOUS GENERAL REVENUE, BY STATE, SELECTED YEARS, 1942 THROUGH 1970

State	1970	1967	1962	1957	1953	1942
UNITED STATES, Total	16.9	16.3	15.2	14.4[1]	12.9[1]	9.9[1]
Alabama	22.0	20.9	18.6	17.5	16.7	12.1
Alaska	81.4	18.6	27.6	(13.7)	n.a.	n.a.
Arizona	17.3	16.6	16.6	17.6	15.9	12.7
Arkansas	18.9	15.4	15.2	14.7	12.4	13.3
California	15.2	14.7	13.8	13.6	14.1	11.5
Colorado	18.4	17.9	16.4	15.6	13.6	11.0
Connecticut	12.3	12.7	12.5	11.5	11.2	5.9
Delaware	22.2	24.0	18.3	25.4	18.3	8.7
Dist. of Columbia	8.1	8.6	10.4	8.4	8.1	7.6
Florida	21.1	20.3	19.4	17.8	13.0	13.8
Georgia	21.3	18.9	18.0	16.7	13.6	12.2
Hawaii	13.9	13.6	16.6	(15.4)	n.a.	n.a.
Idaho	18.2	18.2	15.9	15.9	14.4	15.4
Illinois	11.8	13.8	11.7	10.8	8.1	5.8
Indiana	19.7	18.2	17.2	16.0	11.7	8.2
Iowa	17.2	17.0	14.8	13.0	12.5	1.5
Kansas	19.1	17.7	15.3	13.7	9.7	7.5
Kentucky	18.3	17.9	15.6	14.6	11.5	9.9
Louisiana	22.7	20.6	19.4	22.6	14.8	14.2
Maine	11.9	13.0	10.5	10.8	8.2	6.1
Maryland	15.3	15.0	14.9	14.9	13.8	10.7
Massachusetts	10.5	11.1	10.1	9.3	8.7	6.6
Michigan	17.9	18.4	15.5	14.9	14.3	12.3
Minnesota	19.4	17.9	16.7	16.3	15.5	14.6
Mississippi	18.6	19.0	17.4	15.3	11.1	9.8
Missouri	15.9	15.4	12.4	11.5	8.8	8.0
Montana	15.9	16.4	15.1	14.2	16.6	15.0
Nebraska	21.5	20.3	19.0	16.1	15.6	12.8
Nevada	20.8	19.4	19.6	18.5	18.7	10.7
New Hampshire	15.7	15.1	12.6	13.2	12.2	9.5
New Jersey	13.4	13.9	13.6	13.7	11.9	8.1
New Mexico	22.4	21.7	23.3	24.3	23.0	19.2
New York	13.0	14.2	13.9	13.1	11.7	7.7
North Carolina	16.8	16.1	15.9	14.3	11.4	10.0
North Dakota	25.9	29.6	24.1	23.2	24.2	21.2
Ohio	19.6	18.9	16.6	16.1	15.7	10.7
Oklahoma	22.0	20.0	17.6	16.6	12.7	8.2
Oregon	19.6	19.7	17.9	13.8	14.1	12.7
Pennsylvania	13.3	13.8	13.5	11.7	11.3	8.7
Rhode Island	12.0	11.5	9.0	8.8	8.6	5.5
South Carolina	17.7	17.8	17.4	17.1	12.6	9.7
South Dakota	17.5	17.4	15.3	15.8	13.0	17.5
Tennessee	18.6	16.6	14.8	14.0	10.9	8.5
Texas	20.0	20.1	18.4	18.5	17.9	13.5
Utah	16.9	15.8	13.8	14.3	12.5	8.1
Vermont	12.1	11.6	8.3	9.4	5.2	5.6
Virginia	16.9	15.7	17.9	16.6	15.6	14.0
Washington	20.5	19.3	19.5	17.3	17.3	11.2
West Virginia	14.5	14.8	13.0	12.9	9.5	6.9
Wisconsin	14.8	14.7	13.7	12.4	12.6	13.4
Wyoming	23.1	20.5	18.8	19.1	16.9	17.4

[1] Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governments Division, various reports.

TABLE 16--DISTRIBUTION OF LOCAL GOVERNMENT GENERAL REVENUE
BY SOURCE AND BY TYPE OF GOVERNMENT, SELECTED YEARS 1942-1970

Fiscal Year	All local governments		Percent distribution by type of government			
	Amount[1] (millions)	Percent distribution by source	Cities[2]	School districts[3]	Counties[2]	Townships & Special districts
		Total General Revenue (Local Revenue & Federal-State Aid)				
1942	$ 7,075	100.0%	37.0%	33.7%	22.0%	7.3%
1952	16,952	100.0	32.0	38.4	20.7	8.9
1957	25,916	100.0	30.3	41.9	19.5	8.3
1967	60,236	100.0	26.8	47.0	17.8	8.5
1970	82,683	100.0	26.8	46.8	18.2	8.2
		Intergovernmental Revenue (Federal and State Aid)				
1942	1,785	25.2	24.0	43.8	27.8	4.5
1952	5,281	31.2	18.7	49.9	26.2	5.2
1957	8,049	31.1	17.6	53.6	23.5	5.3
1967	21,897	36.4	17.7	58.2	18.5	5.5
1970	31,291	37.8	19.6	56.6	18.5	5.3
		General Revenue From Local Sources (Taxes and Charges)				
1942	5,290	74.8	41.4	30.3	20.0	8.3
1952	11,671	68.8	38.0	33.3	18.3	10.5
1957	17,866	68.9	36.1	36.6	17.7	9.6
1967	38,340	63.6	32.0	40.5	17.4	10.1
1970	51,392	62.2	31.2	40.9	18.0	10.0
		Local Property Taxes				
1942	4,347	61.4	39.0	32.9	20.1	8.0
1952	8,282	48.9	32.7	39.2	19.8	8.3
1957	12,385	47.8	29.7	42.8	19.2	8.3
1967	25,418	42.2	24.8	48.9	18.5	7.8
1970	32,963	39.9	23.7	50.3	18.1	7.9
		Local Nonproperty Taxes				
1942	358	5.1	70.1	14.0	10.1	5.9
1952	1,184	7.0	75.7	16.0	6.2	2.1
1957	1,901	7.3	72.5	16.4	8.5	2.7
1967	3,897	6.5	70.9	15.9	10.4	2.8
1970	5,871	7.1	65.9	17.5	13.7	2.9
		Local Charges and Miscellaneous General Revenue				
1942	584	8.3	41.6	21.2	25.0	12.2
1952	2,205	13.0	37.4	20.2	19.0	23.4
1957	3,580	13.8	38.8	25.9	17.6	17.8
1967	9,025	15.0	35.5	27.5	17.2	19.9
1970	12,558	15.2	34.5	27.2	19.6	18.7

[1]Includes the following approximate amounts of duplicative interlocal transactions: 1970-$1.8 bil.; 1967-$1.5 bil.; 1957-$500 mil.; 1952-$100 mil.; 1942-$50 mil.

[2]Excludes est. amounts allocable to dependent school systems.

[3]Includes est. amounts allocable to dependent city and county school systems.

[4]Includes direct Federal-local aid as well as Federal aid channeled through the States.

Source: ACIR Staff computations based on U.S. Bureau of the Census data.

Table 17.
Tax Revenues of Present State-Local Tax System,
1968-69

(in Millions of Dollars)

States	Total State-local Tax Receipt	State Personal Income Tax	State General Sales Tax	Total State Local Taxes exc. State Personal Income & General Sales Taxes	State Corporate Income Tax			
UNITED STATES, TOTAL	76,370.6	7,498.7	12,443.2	54,428.7	3,179.8			
ALABAMA	793.6	74.9	197.4	520.3	29.0			
ALASKA	110.1	25.3	--	84.8	4.3			
ARIZONA	654.5	52.8	147.5	454.2	18.1			
ARKANSAS	440.5	37.7	103.7	299.1	22.4			
CALIFORNIA	10,493.1	1,086.9	1,624.3	7,727.9	592.5			
COLORADO	810.2	103.5	182.8	583.9	32.0			
CONNECTICUT	1,176.5	--	174.1	1,002.4	86.2			
DELAWARE	201.0	61.4	--	139.6	15.1			
~~DIST. OF COLUMBIA~~								
FLORIDA	2,096.0	--	573.8	1,522.2	--			
GEORGIA	1,251.5	139.3	308.0	804.3	79.3			
HAWAII	281.2	86.5	139.1	157.7	3.7			
IDAHO	225.5	38.5	38.4	138.6	10.0			
ILLINOIS	4,118.4	--	989.6	3,128.8	--			
INDIANA	1,710.4	181.5	349.4	1,179.5	8.8			
IOWA	1,080.7	106.9	207.5	766.3	24.1			
KANSAS	804.0	73.4	136.4	594.2	20.1			
KENTUCKY	897.0	107.6	247.7	541.7	39.4			
LOUISIANA	1,115.6	44.5	159.8	911.3	34.6			
MAINE	301.3	--	70.4	230.7	--			
MARYLAND	1,545.9	313.4	162.4	1,070.1	54.7			
MASSACHUSETTS	2,474.3	453.6	157.3	1,863.4	185.1			
MICHIGAN	3,754.1	390.3	794.8	2,569.1	214.8			
MINNESOTA	1,503.7	304.3	174.0	1,024.6	82.6			
MISSISSIPPI	571.0	30.4	173.5	377.1	33.3			
MISSOURI	1,400.1	118.3	295.7	986.3	18.5			
MONTANA	243.8	31.2	--	212.6	8.1			
NEBRASKA	534.7	36.6	70.4	417.7	6.9			
NEVADA	213.1	--	44.2	168.9	--			
NEW HAMPSHIRE	214.7	--	--	214.7	--			
NEW JERSEY	2,902.6	--	264.9	2,637.7	156.6			
NEW MEXICO	331.6	19.6	82.7	319.3	5.1			
NEW YORK	10,544.1	3,151.6	692.8	7,093.7	610.3			
NORTH CAROLINA	1,347.2	339.6	239.6	868.0	112.5			
NORTH DAKOTA	207.9	14.0	35.6	158.3	2.2			
OHIO	3,234.0	--	610.7	2,663.3	--			
OKLAHOMA	737.1	47.8	27.0	601.3	22.1			
OREGON	786.4	304.3	--	582.1	37.5			
PENNSYLVANIA	4,007.4	--	891.3	3,116.2	284.0			
RHODE ISLAND	345.0	--	72.5	272.5	22.1			
SOUTH CAROLINA	605.3	84.4	137.8	383.1	40.5			
SOUTH DAKOTA	232.5	--	34.7	197.8	0.6			
TENNESSEE	1,005.5	--	228.9	776.6	61.6			
TEXAS	3,082.7	--	440.6	2,642.3	--			
UTAH	341.9	50.9	65.2	225.8	10.7			
VERMONT	168.7	34.0	--	134.7	5.6			
VIRGINIA	1,464.7	273.4	185.3	1,006.0	67.5			
WASHINGTON	1,395.3	--	532.3	863.0	--			
WEST VIRGINIA	478.1	31.0	157.1	290.0	4.1			
WISCONSIN	1,858.5	461.9	116.8	1,279.8	101.0			
WYOMING	132.4	--	29.5	102.9	--			

Source: ACIR staff calculations based on U. S. Census data.

Table 18.
Tax Revenues Required for State Financing of 90% of School Costs - Case 1. Equal Use of Sales and Income Taxes

(in Millions of Dollars)

States	90% of State-Local Expenditures for Local Schools, 1969 2/	Actual State Expenditures for Local Schools From Own Funds, 1969 3/	Additional State Expenditure Required	State Personal Income Tax Required	State General Sales Tax Required	Total State Local Taxes exc. State Personal Income and General Sales Taxes	State Corporation Income Tax	
UNITED STATES, TOTAL	25,135.3	12,708.6	13,138.0	16,539.9	16,539.9	+3,490.7	3,179.2	
ALABAMA	299.7	129.7	43.0	127.6	127.6	477.3	29.6	
ALASKA	42.7	37.8	15.0	20.2	20.2	69.8	4.3	
ARIZONA	231.8	157.1	74.7	137.5	137.5	379.5	18.1	
ARKANSAS	137.7	86.2	52.5	97.0	97.0	246.6	22.4	
CALIFORNIA	3,029.9	1,396.6	1632.3	2231.8	2231.8	6035.6	548.5	
COLORADO	274.5	83.0	191.5	208.9	208.9	392.4	32.0	
CONNECTICUT	416.3	131.0	285.3	229.7	229.7	717.1	86.2	
DELAWARE	85.2	72.2	13.0	37.2	37.2	126.6	15.1	
~~DIST. OF COLUMBIA~~								
FLORIDA	741.6	627.6	114.0	543.9	543.9	1409.2	--	
GEORGIA	458.5	321.9	136.6	291.9	391.9	667.7	73.2	
HAWAII	92.2	109.6	(-11.3)	111.8	111.8	157.7	13.7	
IDAHO	71.6	33.5	38.1	57.5	57.5	120.5	10.0	
ILLINOIS	1,405.6	455.6	950.0	969.8	969.8	2178.8	--	
INDIANA	644.2	263.1	381.1	456.0	456.0	798.4	8.4	
IOWA	409.0	208.0	201.0	257.7	257.7	565.3	24.1	
KANSAS	268.8	103.1	165.7	187.8	187.8	428.5	30.1	
KENTUCKY	262.0	177.2	84.8	284.5	333.0	452.9	39.4	
LOUISIANA	328.4	268.2	117.2	160.8	160.8	794.1	34.6	
MAINE	100.0	35.7	64.3	67.4	67.4	166.6	--	
MARYLAND	603.2	216.9	325.3	430.6	430.6	684.8	54.7	
MASSACHUSETTS	657.9	170.8	488.1	549.5	549.5	1375.2	125.1	
MICHIGAN	1,325.6	624.1	701.5	943.2	943.2	1867.6	214.8	
MINNESOTA	618.7	250.0	368.7	423.4	423.4	655.9	82.6	
MISSISSIPPI	161.4	143.4	18.0	106.0	106.0	359.1	33.3	
MISSOURI	534.9	230.5	304.4	359.2	359.2	681.8	18.5	
MONTANA	87.3	32.4	54.9	43.0	43.0	157.7	8.1	
NEBRASKA	175.0	22.2	152.8	129.9	129.9	264.9	6.9	
NEVADA	67.4	41.1	26.3	35.2	35.2	142.6	--	
NEW HAMPSHIRE	69.4	3.6	65.8	32.9	32.9	148.9	--	
NEW JERSEY	994.7	244.4	750.3	507.6	507.6	1887.4	156.6	
NEW MEXICO	129.0	117.9	11.1	56.7	56.7	208.2	5.1	
NEW YORK	3,241.3	2088.9	1252.4	2051.4	2051.4	6441.3	610.3	
NORTH CAROLINA	420.3	397.3	23.0	251.1	251.1	845.5	112.5	
NORTH DAKOTA	73.3	25.5	47.8	48.7	48.7	110.5	2.3	
OHIO	1,238.9	377.6	861.3	741.0	741.0	1082.0	--	
OKLAHOMA	218.2	109.7	108.5	121.6	121.6	493.8	22.1	
OREGON	318.2	74.0	244.2	224.2	224.2	347.4	37.5	
PENNSYLVANIA	1,493.6	787.8	705.8	793.5	793.5	2412.4	284.0	
RHODE ISLAND	94.1	41.0	53.1	62.8	62.8	217.4	28.1	
SOUTH CAROLINA	217.2	154.2	63.1	142.6	142.6	330.0	40.5	
SOUTH DAKOTA	71.6	7.7	91.9	55.3	55.3	117.4	0.6	
TENNESSEE	327.9	176.5	151.4	190.2	190.2	630.2	61.6	
TEXAS	1,180.8	622.6	557.2	499.9	499.9	2086.1	--	
UTAH	128.7	63.8	64.9	90.5	90.5	160.4	10.7	
VERMONT	50.2	24.2	26.1	30.0	30.0	168.6	5.6	
VIRGINIA	441.4	220.4	221.0	329.2	329.2	785.0	67.5	
WASHINGTON	541.4	333.2	208.2	370.2	370.2	648.2	--	
WEST VIRGINIA	177.8	102.7	55.1	121.6	121.6	249.9	4.1	
WISCONSIN	593.2	162.4	430.9	504.8	504.8	842.4	101.0	
WYOMING	50.5	19.9	30.6	30.0	30.0	72.3	--	

1/ See explanation in Text, p. 3~~0~~22.
2/ After deduction of local charges and miscellaneous revenue and Federal aid. Amount of Federal aid deducted ($3.1 billion) includes "other Federal aid" (other than direct Federal aid for local schools or higher education) of up to $0.4 or $0.5 billion.
Distribution by State not available.
3/ Includes direct and intergovernmental expenditure.

Source: ACIR staff calculations based on U. S. Census data.

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Table 19.
Tax Revenues Required for State Financing of 90% of School Costs - Case 2. Proportionate Increase in Corporation Income Tax

(in Millions of Dollars)

States	State Personal Income Tax Required	State General Sales Tax Required	Total State Local Taxes exc. State Personal Income & General Sales Taxes	State Corporation Income Tax
UNITED STATES, TOTAL	15,397.0	15,397.0	45,576.6	5,464.7
ALABAMA	144.3	144.3	504.2	55.8
ALASKA	20.6	20.6	68.9	3.5
ARIZONA	125.1	125.1	404.3	43.9
ARKANSAS	83.4	83.4	273.7	49.6
CALIFORNIA	1986.6	1986.6	6525.9	1083.9
COLORADO	194.8	194.8	420.6	60.3
CONNECTICUT	233.1	233.1	710.3	79.5
DELAWARE	39.9	39.9	131.3	9.7
DIST. OF COLUMBIA				
FLORIDA	293.8	293.8	1503.4	100.1
GEORGIA	260.1	260.1	731.3	136.8
HAWAII	109.9	109.9	161.5	17.4
IDAHO	55.3	55.3	124.9	14.4
ILLINOIS	828.5	828.5	2461.4	282.6
INDIANA	449.5	449.5	811.4	21.8
IOWA	242.4	242.4	595.9	54.6
KANSAS	173.7	173.7	456.6	48.2
KENTUCKY	204.3	204.3	488.4	74.8
LOUISIANA	128.2	128.2	859.2	99.7
MAINE	57.6	57.6	186.1	19.6
MARYLAND	421.2	421.2	703.5	73.5
MASSACHUSETTS	533.1	533.1	1409.1	318.0
MICHIGAN	823.0	823.0	2109.1	457.2
MINNESOTA	409.1	409.1	624.6	111.2
MISSISSIPPI	67.6	67.6	435.8	110.2
MISSOURI	341.7	341.7	716.7	53.5
MONTANA	41.8	41.8	140.2	10.8
NEBRASKA	121.9	121.9	280.9	33.0
NEVADA	30.1	30.1	152.9	10.3
NEW HAMPSHIRE	28.1	28.1	158.5	9.6
NEW JERSEY	500.6	500.6	1901.4	170.7
NEW MEXICO	52.4	52.4	216.8	13.6
NEW YORK	2063.8	2063.8	6416.5	535.4
NORTH CAROLINA	248.9	248.9	849.4	116.9
NORTH DAKOTA	46.3	46.3	115.5	7.3
OHIO	633.1	633.1	2017.9	215.8
OKLAHOMA	107.7	107.7	521.7	49.8
OREGON	222.5	222.5	341.4	40.8
PENNSYLVANIA	803.5	803.5	2400.4	274.0
RHODE ISLAND	65.6	65.6	213.8	22.4
SOUTH CAROLINA	131.3	131.3	342.7	63.0
SOUTH DAKOTA	49.8	49.8	132.9	17.1
TENNESSEE	188.8	188.8	637.9	64.4
TEXAS	426.2	426.2	2231.5	145.3
UTAH	86.7	86.7	168.5	18.3
VERMONT	30.3	30.3	108.1	5.0
VIRGINIA	332.5	332.5	799.7	82.1
WASHINGTON	316.3	316.3	762.7	107.9
WEST VIRGINIA	116.0	116.0	246.1	15.3
WISCONSIN	500.6	500.6	857.3	109.5
WYOMING	25.6	25.6	81.2	8.7

1/ See explanation in text, p. 3-23.

Source: ACIR staff calculations based on U. S. Census data.

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Table 20.
Estimated Additional State and Local Funds Resulting From Federal Welfare Takeover and Revenue Sharing, By State

State	State-Local Public Welfare Expenditures 1969 1/		Nixon Administration Revenue Sharing Plan of $5 Billion Appropriation	
	State	Local	State	Local
UNITED STATES, TOTAL	$4,138.8	$1,436.9	$2,635.2	2341.8
ALABAMA	39.5	2.9	50.6	31.5
ALASKA	6.8	--	5.8	2.8
ARIZONA	12.6	2.7	30.8	20.6
ARKANSAS	21.9	.7	27.1	15.9
CALIFORNIA	825.8	322.3	273.4	316.9
COLORADO	49.2	13.0	29.9	30.2
CONNECTICUT	88.6	7.8	28.2	31.0
DELAWARE	12.1	3.0	7.7	3.7
DIST. OF COLUMBIA	--	--	--	--
FLORIDA	33.8	18.9	87.0	80.4
GEORGIA	45.6	9.5	60.6	46.9
HAWAII	21.4	0.1	17.3	6.1
IDAHO	7.8	3.0	11.9	8.2
ILLINOIS	160.7	0.1	98.0	121.8
INDIANA	28.8	30.7	59.7	56.1
IOWA	46.7	28.8	38.5	36.0
KANSAS	34.0	--	25.4	25.9
KENTUCKY	37.4	3.1	43.0	26.2
LOUISIANA	68.1	1.2	63.5	33.9
MAINE	15.2	3.4	12.5	10.4
MARYLAND	93.1	13.7	49.4	43.3
MASSACHUSETTS	335.3	205.0	86.6	65.9
MICHIGAN	223.6	53.5	128.9	100.3
MINNESOTA	91.9	58.7	61.4	46.4
MISSISSIPPI	23.7	2.6	38.7	32.5
MISSOURI	82.9	5.7	45.0	56.4
MONTANA	7.1	7.6	8.9	9.9
NEBRASKA	12.6	--	16.4	22.6
NEVADA	4.1	5.7	7.0	6.8
NEW HAMPSHIRE	5.7	9.3	6.4	8.6
NEW JERSEY	111.8	8.5	64.0	59.7
NEW MEXICO	16.2	0.2	33.9	8.9
NEW YORK	732.3	328.9	259.4	274.7
NORTH CAROLINA	31.4	13.6	78.1	35.2
NORTH DAKOTA	7.1	2.8	11.7	8.8
OHIO	151.4	79.9	94.9	117.6
OKLAHOMA	53.8	1.8	39.8	33.9
OREGON	31.1	10.3	28.7	28.1
PENNSYLVANIA	220.6	50.4	131.3	114.9
RHODE ISLAND	39.7	0.2	12.4	8.4
SOUTH CAROLINA	12.3	2.7	39.8	16.9
SOUTH DAKOTA	5.7	1.6	8.4	10.4
TENNESSEE	26.8	13.5	47.5	37.3
TEXAS	52.1	11.7	126.6	116.4
UTAH	13.2	1.3	17.0	11.7
VERMONT	10.4	2.3	7.5	7.5
VIRGINIA	76.4	36.4	64.5	40.1
WASHINGTON	94.7	--	57.4	34.6
WEST VIRGINIA	24.0	0.6	28.5	13.2
WISCONSIN	71.7	55.1	70.5	53.6
WYOMING	2.2	3.1	6.4	5.1

1/ Expenditures from own sources (net of intergovernmental grants-in-aid).

Source: U. S. Census and U. S. Treasury Data

Table 21.
Tax Revenues Required for State Financing of 90% of School Costs - Cast 3. Federal Takeover of Welfare Costs[1]

(in Millions of Dollars)

State	State Personal Income Tax Required	State General Sales Tax Required	Total State Local Taxes exc. State Personal Income & General Sales Taxes	State Corporation Income Tax
UNITED STATES, TOTAL	13,457.3	13,457.3	43,480.6	4,205.6
ALABAMA	127.7	127.7	494.9	49.4
ALASKA	17.5	17.5	62.4	3.0
ARIZONA	119.7	119.7	399.8	41.1
ARKANSAS	75.0	75.0	368.0	44.6
CALIFORNIA	1662.1	1662.1	6 036.7	906.0
COLORADO	173.5	173.5	701.0	53.6
CONNECTICUT	195.3	195.3	689.6	66.6
DELAWARE	34.5	34.5	117.9	7.4
DIST. OF COLUMBIA				
FLORIDA	379.4	379.4	1484.6	95.2
GEORGIA	342.0	342.0	712.3	127.3
HAWAII	100.0	100.0	159.8	15.8
IDAHO	51.8	51.8	121.0	13.5
ILLINOIS	759.9	759.9	2437.9	259.2
INDIANA	435.4	435.4	770.0	31.1
IOWA	221.4	221.4	562.4	49.9
KANSAS	158.8	158.8	452.5	44.1
KENTUCKY	188.5	188.5	479.5	69.0
LOUISIANA	103.7	103.7	338.9	20.6
MAINE	51.1	51.1	180.5	17.4
MARYLAND	378.4	378.4	683.3	66.0
MASSACHUSETTS	393.9	393.9	1146.2	161.1
MICHIGAN	735.5	735.5	2006.0	408.6
MINNESOTA	390.7	390.7	620.9	156.2
MISSISSIPPI	61.1	61.1	432.6	99.6
MISSOURI	303.3	303.3	705.0	47.5
MONTANA	38.7	32.7	151.8	10.0
NEBRASKA	116.1	116.1	279.8	21.9
NEVADA	28.3	28.3	146.6	9.7
NEW HAMPSHIRE	25.7	25.7	148.4	8.8
NEW JERSEY	452.8	452.8	1 276.6	154.4
NEW MEXICO	45.2	45.2	214.7	11.7
NEW YORK	1743.1	1743.1	5 996.6	494.4
NORTH CAROLINA	240.2	240.2	831.7	113.8
NORTH DAKOTA	42.9	42.9	115.3	6.8
OHIO	568.4	568.4	1915.9	193.8
OKLAHOMA	85.9	85.9	519.2	39.7
OREGON	202.3	202.3	332.5	28.2
PENNSYLVANIA	709.3	709.3	3 317.9	241.9
RHODE ISLAND	48.6	48.6	207.8	16.6
SOUTH CAROLINA	126.3	126.3	337.6	60.6
SOUTH DAKOTA	47.4	47.4	130.5	16.3
TENNESSEE	177.4	177.4	610.5	60.5
TEXAS	392.0	392.0	3208.1	133.6
UTAH	90.7	90.7	165.9	17.0
VERMONT	25.5	25.5	105.0	4.2
VIRGINIA	320.8	320.8	760.4	79.3
WASHINGTON	275.8	275.8	747.9	94.1
WEST VIRGINIA	104.7	104.7	344.0	13.8
WISCONSIN	468.3	468.3	795.1	102.4
WYOMING	24.7	24.7	77.8	8.4

1/ See explanation in text, p. 3-23.

Source: ACIR staff calculations based on U. S. Census data.

Table 22.
Tax Revenues Required for State Financing of 90% of School Costs - Case 4. Federal General Revenue Sharing[1]/

(in Millions of Dollars)

States	State Personal Income Tax Required	State General Sales Tax Required	Total State Local Taxes exc. State Personal Income & General Sales Taxes	State Corporation Income Tax
UNITED STATES, TOTAL	12,544.5	12,544.5	40,729.9	4,376.7
ALABAMA	106.5	106.5	425.2	41.2
ALASKA	14.8	14.8	65.1	3.5
ARIZONA	106.6	106.6	374.7	36.6
ARKANSAS	64.6	64.6	245.9	21.4
CALIFORNIA	1554.7	1554.7	5651.2	847.4
COLORADO	160.6	160.6	566.8	49.6
CONNECTICUT	183.2	183.2	654.5	62.5
DELAWARE	30.2	30.2	113.1	7.3
~~DIST. OF COLUMBIA~~				
FLORIDA	242.2	242.2	1391.5	82.5
GEORGIA	218.0	218.0	692.7	114.7
HAWAII	92.0	92.0	152.4	14.5
IDAHO	46.5	46.5	111.4	12.1
ILLINOIS	718.0	718.0	2201.2	244.9
INDIANA	406.3	406.3	722.5	19.7
IOWA	204.1	204.1	532.5	46.0
KANSAS	147.6	147.6	432.5	41.0
KENTUCKY	166.5	166.5	445.2	61.0
LOUISIANA	79.0	79.0	726.7	61.4
MAINE	45.2	45.2	167.3	15.6
MARYLAND	356.7	356.7	635.0	62.0
MASSACHUSETTS	366.3	366.3	1065.4	149.8
MICHIGAN	625.1	625.1	1277.7	320.6
MINNESOTA	363.7	363.7	567.2	98.9
MISSISSIPPI	50.4	50.4	342.7	32.2
MISSOURI	272.4	272.4	650.2	44.2
MONTANA	24.8	24.8	142.9	7.0
NEBRASKA	108.6	108.6	255.9	20.5
NEVADA	25.3	25.3	132.7	8.7
NEW HAMPSHIRE	23.0	23.0	138.4	7.9
NEW JERSEY	425.5	425.5	1777.6	145.1
NEW MEXICO	35.1	35.1	203.2	9.1
NEW YORK	1697.5	1434.5	5621.7	463.3
NORTH CAROLINA	209.6	209.6	781.6	97.9
NORTH DAKOTA	37.5	37.5	102.5	5.9
OHIO	527.9	527.9	1784.5	120.0
OKLAHOMA	69.7	69.7	478.4	32.2
OREGON	195.2	195.2	272.0	35.8
PENNSYLVANIA	653.2	653.2	2132.9	222.8
RHODE ISLAND	43.2	43.2	197.6	14.8
SOUTH CAROLINA	110.3	110.3	313.0	52.9
SOUTH DAKOTA	43.8	43.8	112.9	15.1
TENNESSEE	156.3	156.3	544.0	53.3
TEXAS	337.9	337.9	2073.2	115.2
UTAH	73.3	73.0	152.6	15.4
VERMONT	22.0	22.0	99.9	3.6
VIRGINIA	292.1	292.1	713.2	72.1
WASHINGTON	251.3	251.3	705.9	85.7
WEST VIRGINIA	91.3	91.3	239.0	12.0
WISCONSIN	434.4	434.4	734.5	95.4
WYOMING	22.0	22.0	71.8	7.5

1/ See explanation in text, p. 3-24.

Source: ACIR staff calculations based on U. S. Census and U. S. Treasury data.

TABLE 23
ESTIMATED LOCAL PROPERTY TAXES FOR SCHOOLS AS A PERCENTAGE OF TOTAL LOCAL PROPERTY TAXES, BY STATE, 1970
(Dollar amounts in millions)

State	Local property tax revenue, 1970		
	Total	School's portion	
		Amount	% of total
UNITED STATES	32,991.1	17,400.0	52.7
ALABAMA	112.7	43.7	38.8
ALASKA	30.7	5.2	25.5
ARIZONA	225.6	143.8	63.7
ARKANSAS	123.8	83.3	67.3
CALIFORNIA	4997.5	2,488.5	49.8
COLORADO	393.3	219.1	55.7
CONNECTICUT	723.1	323.8	44.8
DELAWARE	45.5	23.0	50.5
DIST. OF COLUMBIA	127.8	39.7	31.1
FLORIDA	767.5	328.7	42.8
GEORGIA	433.8	266.0	61.3
HAWAII	75.7	--	--
IDAHO	89.5	46.3	51.7
ILLINOIS	2,223.8	1,185.2	53.2
INDIANA	848.4	598.3	70.5
IOWA	598.1	310.4	51.9
KANSAS	443.8	246.9	55.6
KENTUCKY	194.3	144.7	74.5
LOUISIANA	211.4	78.2	37.0
MAINE	168.9	64.2	38.0
MARYLAND	579.1	364.6	63.0
MASSACHUSETTS	1,422.4	554.7	39.0
MICHIGAN	1,547.2	959.2	62.0
MINNESOTA	644.4	459.8	71.4
MISSISSIPPI	153.8	52.1	33.9
MISSOURI	640.0	398.8	62.3
MONTANA	141.8	70.5	49.7
NEBRASKA	307.6	169.0	54.9
NEVADA	82.4	36.1	43.8
NEW HAMPSHIRE	149.5	82.8	55.4
NEW JERSEY	1,684.2	922.3	54.8
NEW MEXICO	68.0	27.5	40.4
NEW YORK	4,315.6	1,935.3	44.8
NORTH CAROLINA	376.0	99.3	26.4
NORTH DAKOTA	106.7	46.5	43.6
OHIO	1668.2	1,192.8	71.5
OKLAHOMA	238.4	150.4	63.1
OREGON	392.0	269.2	68.7
PENNSYLVANIA	1,366.9	794.0	58.1
RHODE ISLAND	157.0	73.1	46.6
SOUTH CAROLINA	157.4	99.8	63.4
SOUTH DAKOTA	145.8	89.6	61.5
TENNESSEE	301.7	134.9	44.7
TEXAS	1,371.0	636.2	46.4
UTAH	130.1	64.4	49.5
VERMONT	72.8	28.2	38.7
VIRGINIA	434.2	224.1	51.6
WASHINGTON	416.9	264.5	63.4
WEST VIRGINIA	122.3	73.5	60.1
WISCONSIN	901.9	446.9	49.6
WYOMING	57.7	40.8	70.7

Source: ACIR staff estimates based on various reports of U.S. Bureau of the Census, Governments Division, for the years 1967 and 1970.

SOURCE:

APPENDIX E

THE ROUGH ROAD TO TAX REFORM: THE OHIO EXPERIENCE

(A Case Study in Public Policymaking)

by

Frederick D. Stocker
Professor of Business Research, Economics
and Public Administration
The Ohio State University
Columbus, Ohio

(Prepared for the Advisory Commission on
Intergovernmental Relations)

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In December 1971 a reluctant, agonized, and bitterly divided Ohio General Assembly enacted that state's first state taxes on personal and corporate income. The final action came after almost nine months of debate and negotiation within the legislature. It ended six months of piecemeal interim financing to which the state was forced to resort while the legislature groped its way toward agreement on a state budget and on the taxes to finance it.

In taking the plunge into the politically treacherous waters of income taxation, the 109th Ohio General Assembly brought to an end a period of almost 40 years in which no major tax structure revisions had been enacted. The structure of Ohio state and local taxation did of course evolve during this period, changing shape in several fundamental ways. The municipal income tax, for example, rose in the 1950's and 1960's to a fiscal prominence matched in few other states. Property taxes also went higher and higher, and rates of existing state taxes were increased, some several times. But these changes were gradual and almost imperceptible, and few of them came about as a result of overt legislative action. Those that did involved only incremental increases of rates or extensions of coverage in existing statutes. It could fairly be said that the 1971 tax program was the first major tax legislation enacted in Ohio since the adoption of the state sales tax in 1935.

THE EVOLUTION OF TAX REFORM AS A PUBLIC POLICY ISSUE

The 1971 tax revision did not burst on the scene suddenly and unheralded. Only those who were totally ignorant of fiscal affairs and those who determinedly refused to face reality could have failed to recognize the inexorable forces working toward tax structure revision centered on personal and corporate income taxes. The actions of the legislature in 1971 were the culmination of fiscal and political forces that had been at work since at least as far back as World War II.

During the Second World War Ohio, like the other states, enjoyed a fiscal idyll that has not been experienced since. Spurred by wartime economic growth and inflation, the flow of revenues far outran expenditures, which were held down by shortages of materials and labor. Unprecedented surpluses accumulated. Tax rates could of course have been reduced, but legislators and administrators alike anticipated that the postwar years would be a time of catching up on facilities and programs that had been deferred first by a decade of depression and then by the war.

At the start of the 1948 fiscal year the state held an accumulated general fund surplus of about $216 million. During the ensuing decade this surplus was gradually eaten up. In only 2 of the 10 fiscal years spanning the period

July 1, 1947 thru June 30, 1958, was there a general fund surplus. The cumulative deficit for the decade was nearly $200 million. The state obviously did utilize the wartime surplus to expand postwar programs beyond the level made possible by existing taxes. Views may differ on whether or not this policy was fiscally "responsible." In any case, it had the unfortunate effect of obscuring the fact tnat the state was living beyond its means. It allowed the people of Ohio to become lulled into the conviction that fiscal conservatism was synonymous with avoidance of tax increases and that revenues generated by economic growth would, with prudent management, suffice indefinitely to meet the state's needs.

While the state government was living partly on the wartime fiscal surplus, local governments generally enjoyed no such cushion. Municipalities were first to experience the squeeze. Tackling the backlog of current and capital expenditures under conditions of postwar price inflation, many Ohio cities soon were forced to seek additional taxes.

Their situation was identical to that faced by cities through the nation, but with two significant exceptions. First, under Ohio's constitutional limit of 10 mills on the aggregate property levy, cities along with other taxing units were required to go to the electorate for approval of any "outside" millage. Most officials, especially in the larger cities, became convinced that efforts to gain voter approval of further increases in municipal property taxes would be futile. The second difference was that under Ohio's unique "pre-emption" doctrine[1] local governments were constitutionally forbidden to impose any tax already used by the state. The effect was to block cities from enacting local "piggy-back" sales taxes, a movement that took root in several other states at about that time.

Prevented by the 10-mill limit from gaining additional property tax revenues, and by the pre-emption doctrine from supplemental sales taxes, Ohio cities began to turn to the one major revenue source left open to them--the municipal income tax. Starting with Toledo in 1946 the number of Ohio municipalities levying such taxes has grown to more than 300 by 1971. The significance of this movement to the process of tax reform can scarcely be exaggerated. As the cities acquired a vested interest in the income tax, they formed a powerful bloc in opposition to state entry into the field. Many people thought

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[1]The judicial doctrine of pre-emption holds that the state legislature, in adopting any form of tax, implies its intention to exercise its control over local taxing authority so as to prohibit local taxes on the same or a similar subject without express authorization of the legislature.

that the pre-emption doctrine would require that if the state were to enact any form of income tax, the municipal taxes would of necessity fall. Even if this concern is groundless, as most now agree, cities would nevertheless be at a disadvantage in competing against the state for revenues from this source.

By the mid-1950's it became evident that the free ride the state had been enjoying was coming to an end. In 1956, with the election of 5-term (10 years) Governor Frank J. Lausche to the U.S. Senate, Republican C. William O'Neill gained the governorship. Facing the alternatives of austerity or increased state taxes, the governor and the legislature chose the former, thereby maintaining the status quo for 2 more years.

The DiSalle Era

In 1958, the Democratic party scored one of its rare sweeps in normally Republican Ohio. Partly as a result of a strategic blunder in placing a "right-to-work" issue on the November ballot, the Republicans lost the governorship to Michael V. DiSalle, along with control of both houses in the General Assembly and John W. Bricker's seat in the U. S. Senate. The election demonstrated the political power of organized labor when aroused from its lethargy by a clear threat to its interests.

Taking office in January 1959 as Ohio's first 4-year-term Governor, DiSalle encountered the same choice--whether to live with austerity or to break what had now become a tradition by seeking increased state taxes. Unlike his predecessors, DiSalle presented the General Assembly with a significantly enlarged budget to be financed by a variety of changes in existing taxes. The key revenue proposal was to broaden the base of the 3% retail sales and use tax by (a) including a variety of personal services and (b) narrowing the existing "direct use" exclusion that removed many business purchases from the tax base. Other elements included increasing rates of the corporation franchise tax (levied on corporate net worth) and the cigarette tax, and increasing the mark-up on liquor sold through the state liquor monopoly.

Despite control by his party of both houses in the General Assembly, Governor DiSalle was unable to gain enactment of his tax program. The sales tax broadening proved especially unpopular. In the final analysis the legislature went only so far as to add two cents to the cigarette tax (raising it from 3 to 5 cents per pack) and to raise the franchise tax from one to three mills per dollar of net worth. The liquor mark-up was also increased.

In the second biennium of his 4-year term, facing a Republican legislature, the governor submitted a budget requiring additional tax revenues but containing no specific proposals. Instead he indicated his willingness to sit down with legislative leaders to fashion a bipartisan tax

program. The Republican leadership would have nothing of that and instead pared the budget to stay within revenue from existing sources.

DiSalle paid dearly for having violated Ohio's no-tax-increase tradition. In November 1962 "High-Tax Mike," as his opponents tagged him, was resoundingly defeated by James A. Rhodes, whose promise to Ohioans was "no new or increased taxes." The lesson was clear for all to see, that the people of Ohio do not look kindly on the political leader who dares to raise taxes.

The Rhodes Fiscal Policy

Having committed himself to hold the line on taxes, Governor Rhodes faced the classic political dilemma of meeting public service needs and fashioning a distinctive "program" without spending more money than could be raised from existing sources. That the Governor was able to ride out this dilemma through 8 years of popularity must be attributed partly to good fortune, partly to ingenuity, and partly to ballyhoo.

The good fortune consisted of the economic recovery of the sixties, which gave Ohio a rate of growth above the national average and swelled the revenue flow accordingly. In contrast, the economic weakness of 1959-61 had contributed much to the fiscal problems of the DiSalle administration.

There were several elements of ingenuity in the Rhodes fiscal program. One was to resort to borrowing for financing of functions that had previously been handled for the most part on a pay-as-you-go basis. The administration proposed, and the voters approved, a $250 million bond issue for "public works" in 1963, a $500 million highway bond issue in 1964, a $290 million issue in 1965 for "Development Revenue," and a $759 million issue for "public capital improvements" (highway and other) in 1968.

It would be hard to maintain that there was anything fiscally unsound about this policy. The successive bond issues still left Ohio with a low state debt in relation to the size of the state's economy. And borrowing is universally recognized as a sound and prudent way to finance capital improvements. Yet their effect, as with all bond issues, was to encumber future revenues to provide immediately capital facilities that otherwise would have had to wait. In time it also placed increased demands on current revenues to operate and maintain these new capital facilities as they came on line. And it allowed Ohio voters to continue on in the happy belief that additional public services and facilities could be provided at no additional cost in taxes.

Another element of ingenuity is found in the gradual, almost imperceptible, reinterpretations of the "no new taxes"

policy. Very early it became evident that in an economy of rapidly growing public service demands a hold-the-line policy at the state level has the effect of shifting a larger part of the state-local fiscal burden to local governments. It amounts to forcing local governments to raise rates of taxes subject to their control--in Ohio, the property tax and the municipal income tax. Both revenue sources shot up during the 1960's, though few Ohioans recognized this as a direct consequence of state fiscal policy.

By 1967, at the start of Governor Rhodes' second term, it was evident that some modifications must be made. The program that was decided on by the Governor and his party's leadership in the General Assembly, and subsequently enacted, authorized a variety of permissive local taxes, including a "piggy-back" county sales tax, a hotel and motel room tax, an auto license tax and a tax on utility bills. It was argued that these taxes, being optional and local, did not violate the no-new-state-taxes pledge.

Two years later, as the budget was being prepared for the last biennium of the Rhodes administration, tentative discussion was given to the idea of county income taxes, either optional or mandatory. Either would take some pressure off the state general fund, and the resulting taxes could be termed local rather than state taxes. Nevertheless the idea was dropped when the Governor asserted his continued firm opposition to any form of income tax.

Many things contributed to the success of the no-new-tax policy: stringent economies; buoyant revenues supported by economic recovery; large-scale borrowing; increasing local property taxes; spreading use of municipal income taxes; and opening up other nonproperty taxes to local use. In 1967, at the start of Governor Rhodes' second term, emphasis shifted to the word "new" in the "no-new taxes" slogan. References to "no-new-or-increased taxes" were carefully avoided. The reason soon became evident. The Governor's fiscal program for the 1967-69 biennium, as worked out in compromise with legislative leaders, called for an increase in the retail sales and use tax from 3 to 4 percent; an increase in the cigarette tax from 5 to 7 cents per pack; and an increase in the corporation franchise tax from 3/10 to 4/10 of one percent on net worth. Nor was that all. Public utility excise tax rates were increased in fiscal 1969 and again in 1970. In fiscal 1970 the cigarette tax was increased again, to 10 cents per pack, and the corporate franchise tax went to 5/10 of one percent. Yet, because of the ingenuity with which slogans were gradually modified, few Ohioans would have accused Governor Rhodes of having violated his pledge on taxes.

Finally the success of the Rhodes fiscal policy must be attributed partly to ballyhoo. The Governor himself projected a personal image of tremendous energy and enthusiasm. His repeated assertions that Ohio was far outstripping the rest of the nation in economic growth engendered wide acceptance of the notion that growth would somehow solve the state's fiscal problems. His profound conviction, against all evidence, that whatever economic growth Ohio enjoyed was attributable to a "favorable tax climate" solidified support for his hold-the-line tax policy; his pride in Ohio's low-tax position, coupled with noisy claims to Ohio's national leadership in this or that public service area, drowned out the evidence of gradual deterioration.

This fiscal policy, based on a unique blend of chutzpah, luck, skill and ballyhoo, maintained the Rhodes administration in high popularity throughout its 8-year tenure. That it postponed, obscured and aggravated many problems cannot be denied. The fiscal legacy left by the Rhodes administration gives plausibility to the wry suggestion of one astute observer, that the State Constitution (which now limits a governor to two terms) should be amended to provide that if a governor serves two consecutive terms, he must serve a third.

Income Taxation--Its Emergence as an Issue

When DiSalle took office in 1959, there was virtually no talk of a state income tax. Despite fiscal problems that impelled the Governor to present a radical and, for that time mammoth fiscal package, little or no discussion was given to the possibility of proposing state personal and corporate income taxes. By 1970, little more than a decade later, both major party candidates for governor were announcing that, if elected, they would present a tax reform program centered on some form of statewide income tax. By what process did income taxation emerge from a latent issue, of concern only to scholars, reformers and eccentrics, to a major question of public policy?

Though the intellectual roots of the state income tax issue go deep into Ohio history, for present purposes it is enough to go back to 1961. In that year the Ohio General Assembly considered income tax legislation for the first time. The proposal, sponsored by Republican House Speaker Roger Cloud (later to become State Auditor and the party's candidate for Governor in 1970) called for permissive local school district income taxes. The intent was to ease burdens on local property taxes, without involving the state in any new taxes. Later on in the session the proposal was modified to allow county income taxes for school purposes, but no action was taken.

Also in 1961 the Ohio AFL-CIO, The Ohio State Council of Retail Merchants, The Ohio Education Association, and The Ohio

Farm Bureau Federation, feeling that the time had come for a comprehensive study of Ohio's tax system, combined forces to sponsor such a study. They retained the late Dr. George W. Thatcher, then Chairman of the Economics Department of Miami University, who in turn enlisted the help of other distinguished economists on the faculties of Ohio's colleges and universities. The result was a 255-page report[2] that reviewed:

1. The major sources of taxation in Ohio and their impact;

2. The principal areas of possible sources of additional tax revenue;

3. The probable yields of these additional tax sources; and

4. Advantages and disadvantages of each.

The report considered each of these areas in a thorough, scholarly and objective manner. It offered no recommendations, but merely reviewed the problems and the alternatives. Nevertheless because of the clear preponderance of evidence supporting income taxation the report has been widely interpreted as having pointed toward state taxation of both personal and corporate income as the key elements in a desirable program of tax revision.

In the 1963 legislative session, with a Republican governor in office, House Speaker Cloud revived his 1961 proposal for optional county income taxes as a possible answer to the pressing financial problems of schools. The bill passed the House but died in the Senate.

Public discussion of tax policy, including income taxation, advanced another notch in 1965, when the General Assembly, in a bill sponsored by Republican Rep. Charles H. Kurfess (later to become Speaker of The House of Representatives) created the Ohio Tax Study Commission. The Commission was directed to conduct a comprehensive study of the state and local tax structure of Ohio, including the problems of administration and collection, distribution of tax revenue, and inequities in the existing tax structure. It was also asked to consider and recommend changes in the tax laws deemed beneficial to the citizens of Ohio and the operations of state and local government.

The Commission consisted of 15 members--8 legislators equally divided by party and 7 citizen members. A staunch conservative, former Senate Republican Leader C. Stanley Mechem, was chosen as Chairman. For the better part of a year the Commission held public hearings throughout the state. In mid-1966 a study staff under the direction of Dr. Frederick

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[2]Tax Revision Alternatives for the Tax System of Ohio, George W. Thatcher, Director (Columbus, 1962).

D. Stocker of Ohio State University was employed to prepare a series of staff papers on various topics. These formed a large part of the input to the Commission's deliberations, and were published along with the Commission's report.[3]

The Commission report, published in June, 1967, called for a shift in emphasis away from property-based taxes and toward income-based taxes. In a key passage the report stated:

> The present dependence on property taxation is so great that the Commission proposes that if large additional revenues are needed the General Assembly should give serious consideration to enactment of a state personal and corporate income tax, replacing considerable amounts of the present taxation on property, and forestalling, in some measure, the additional property taxation that otherwise would be inevitable in the future.[4]

As has been noted, the administration and legislature turned in 1967 to sales tax and excise tax increases and to permissive local taxes, rather than to the income tax the Commission recommended. Nevertheless in that same year the Ohio House of Representatives appointed a Select Committee on Local Tax Revision under the chairmanship of Rep. Albert H. Sealy, Jr., to follow up on the general recommendations of the 1967 OTSC and to prepare a proposal for the consideration of the legislature. Significantly, the Committee's scope was confined to local tax revision. Its focus was on implementing the OTSC recommendation for de-emphasis of property taxation and greater use of income taxation, within the framework of local taxation.

The Sealy Committee held numerous public hearings throughout the state and explored in depth several approaches to tax reform, all involving statewide taxes on personal and corporate income accompanied by large-scale property tax reductions. Late in 1968 the Committee submitted its recommendations, the key features of which were:

1. Enactment of a state tax of 5% on corporate and unincorporated business net income.

2. Repeal of the 0.5% tax on corporate net worth.

3. A phase-out of the property tax on inventories over a 4-year period.

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[3] Ohio Tax Study Commission Report, Columbus, 1967.

[4] Ibid., p. xi. (Italics in original.)

4. Allowance of a credit for other tangible personal property taxes against business franchise tax liability.

5. Imposition of a state-administered 1% "local government income tax", all the revenue from which would go to local governments in the county of origin. The tax was to be based on federal AGI as reported on individual returns, allowing personal exemptions but no nonbusiness deductions.

6. Repeal of the intangible personal property tax.

7. A complex system of distributing revenues among local governments, designed to protect each unit of government from any revenue loss resulting from the changes.

The House Ways and Means Committee held hearings during 1969 on this proposal, along with a number of other tax revision proposals involving personal and corporate income taxes. Criticism of the Sealy Committee proposal centered on its complexity, its failure to provide much net additional revenue, and its tendency to freeze existing patterns of revenue distribution among classes and individual units of local government.

In October of 1969, the budget for the 1969-71 biennium having been balanced by a combination of tight budgeting and a patchwork of tax increases, The Ohio Education Association moved the issue of income taxation a step further through its sponsorship of a two-day conference on longer-run problems and solutions in school financing. The conference brought together representatives of major statewide organizations, key legislators, and public finance experts from the universities. Though specific results are hard to pinpoint, it is widely believed that this conference marked a significant advance in realistic thinking of key individuals on the fiscal problems of the state and on the alternatives for dealing with them.

Consideration of various forms of personal and corporate income taxation continued in and around the legislature in early 1970, with at least a half dozen variants receiving attention. No action was taken. On adjournment of the 108th General Assembly in June, 1970, the House Ways and Means Committee was directed to continue to study the various proposals before it and to try to work out an acceptable compromise by the time of the convening of the new General Assembly in January, 1971.

Growth of Public Support

The evolution of income taxation as a major public issue is marked also by the policy positions taken by the

major interest groups. Efforts by the large statewide organizations--organized labor, the State Council of Retail Merchants, the Chamber of Commerce, the League of Women Voters, the farm organizations, the education organizations, and others --to formulate a position on tax policy involved more or less active discussion of the issues by their membership and, later on, led to dissemination of the organization views to the legislature and the general public.

Prior to the Thatcher study in 1961-62, the idea of state income taxation had little or no organized backing in Ohio. Among the first groups to endorse the income tax as the key element in a program of tax reform for Ohio were the Ohio Farm Bureau Federation and the Ohio Education Association. Later these were joined by other organizations interested primarily in increased funding for selected programs and only secondarily in the source.

In many states the labor unions have provided a strong impetus toward income taxation, viewing this as the only way to shift a larger share of the tax load to higher income groups. In Ohio the labor movement, as represented by the state AFL-CIO, avoided endorsement of a personal income tax, though they consistently and strongly favored a corporate income levy. Labor's position on a personal income tax, as is discussed later in more detail, varied throughout the sixties from one of tacit support to outright opposition. At the same time the unions, through an extensive program of local educational seminars, did much to increase members' awareness of the issues and alternatives in state fiscal policy.

The development that most forcibly brought state tax policy to public attention was a rash of school closings across the state in 1969. Youngstown schools closed for five weeks at the end of calendar year 1968, and 10 other systems were forced to suspend classes in the fall of 1969 for varying periods for lack of money. In each case the cause was defeat (or a series of defeats) of proposed school levies by the local voters. Although other, nonfiscal, controversies were often the root of the problem, the defeats were widely interpreted as signifying refusal of local property taxpayers any longer to bear the brunt of rising school costs and as a demand for an enlarged state role in school financing. The ensuing discussion in the press, in local communities, and in the legislative halls produced general consensus that some basic changes in tax structure were needed.

The political campaigns of 1970 demonstrated that tax reform, which less than a decade earlier was mentionable only in a whisper, had finally emerged as the number one item on the public agenda. The platforms of both major parties called for property tax relief. Both gubernatorial candidates

indicated their intent, if elected, to press for enactment of some form of income tax, though the precise form of tax was left vague, as was the matter of whether it would apply to individuals as well as corporations. The Republican candidate, Roger Cloud, appeared to favor the county income tax approach he had first proposed in 1961. His opponent opposed the county tax approach, insisting that any new income taxes must be state-levied and statewide in coverage. In the November election Democrat John J. Gilligan was elected governor, though Republicans retained firm control of both houses in the General Assembly.

One of the first actions of the new governor-elect was to appoint a 34-member "Citizens Task Force on Tax Reform", charging it to report to him one month after his inauguration recommending a tax program that would raise additional revenues "when and if needed" and correct inequities and defects in the existing tax structure. His charge to the Task Force emphasized that its deliberations and recommendations were to be free of any constraints whatsoever from him or his administration. The Task Force itself was insistent on its total autonomy. In view of the general knowledge of the governor-elect's own views on tax policy, this stance suggests the great confidence he apparently felt that the Task Force, if it took its job seriously, could not fail to come to a consensus in support of an income tax program such as he was known to favor.

As a consensus building undertaking the Task Force was successful beyond most peoples' expectations. The membership of the Task Force, consisting with only one or two exceptions of Presidents of statewide organizations that had an important stake in state tax policy, represented the full spectrum of opinion to be found in the state. Yet its key recommendation--that the state should move promptly to adopt a graduated-rate personal income tax and a corporate net income tax, and grant substantial (though selective) property tax relief--bore the endorsement of 30 of the 34 members. Significantly, the dissenters included the three labor union representatives, who held firm to their position of refusing to endorse a personal income tax unless accompanied by far-reaching changes and increases in business taxes. One representative of a conservative business organization, apparently unable to swallow the income tax concept, abstained.

The Gilligan Tax Program

The Task Force reported to the Governor on February 15. Exactly one month later the Governor submitted his budget and tax proposals for the 1971-73 biennium. The budget proposed sizable increases in almost every category of state spending. To finance the increases he proposed a far-reaching program of tax revision including:

1. A personal income tax, to be levied on adjusted gross income as defined for federal income tax purposes (with minor adjustments), at the following rates:

Adjusted Gross Income	RATE
Less than $3,000	1%
$3,000 - $6,000	1 1/2%
$6,000 - $10,000	2%
$10,000 - $15,000	3%
$15,000 - $20,000	4%
$20,000 - $25,000	5%
$25,000 - $35,000	6%
$35,000 - $50,000	7%
$50,000 and over	8%

A credit of $10 was to be allowed for each eligible personal exemption.

2. A franchise tax to be levied on corporate net income as defined for federal purposes, with income of interstate corporations to be allocated according to a 3-factor formula, the rate to be 4% on the first $10,000 of income, 8% on the balance.

3. For homeowners and renters, a property tax "circuit breaker" in the form of a credit against personal income tax for 100% of property taxes in excess of 5% of AGI, with a refund of excess credits. A similar but more generous circuit breaker was proposed for senior citizens.

4. For corporations, a property tax circuit breaker in the form of a credit against corporate income tax for 80% of property taxes in excess of 25% of Ohio income, with a 5-year carryover for excess credits.

5. Repeal of the existing corporate franchise tax of 0.5 percent on net worth.

6. Repeal of the state tax on intangible personal property except for financial institutions, which is essentially a 5% tax on interest and dividend income.

7. A general roll-back of school property taxes, as part of a revised formula for state school assistance.

8. An extension of the state sales and use tax to cover many business purchases formerly exempted.

This program paralleled very closely the Task Force recommendations. The principal departure was the proposed narrowing

of the "direct use" rule (item 8 above), which was opposed by the Task Force and by most business groups, but strongly favored by organized labor. This feature of the program later became one of the chief bones of contention.

The proposed tax program was calculated to generate $1,115 million in new revenue in its first full year of operation (fiscal 1972). Of this amount, $415 million was to be eaten up in tax relief, leaving a net gain of $700 million. This would amount to an increase of about 50 percent in state general fund revenues, but it would have left Ohio still below the national average in per capita tax levels and in most categories of public expenditures.

The Response in the House of Representatives

As was to be expected, the initial response from the Republican legislative leadership was one of disbelief and outrage over the size of the budget and the size and shape of the tax program. Vows were made to greatly reduce the expenditure package, but no rash promises were made to scuttle the tax program. Democrats in the legislature generally expressed cautious approval.

To expedite legislative action the House of Representatives divided the Administration program into 3 separate bills, one containing the education financing portions, a second containing all other appropriations, and a third containing the tax proposals. Hearings were begun immediately with promises by the House leadership to aim to complete action by mid-May. The Ways and Means Committee, which handled the tax program, heard numerous witnesses endorse the general approach with few or no modifications. No major interest groups came out in firm opposition to the income tax concept though many argued that the total package was too large. Business groups focused their criticism on the proposed narrowing of the direct use exclusion rather than on the income tax proposals. Simultaneously negotiation and debate was going on in party caucuses and in private sessions among legislative leaders and representatives of the Administration.

As the weeks went by it became evident that the Republicans, who controlled the House with 54 members to the Democrats' 45, were nearing agreement on a scaled down education program and a greatly reduced general appropriations bill to offer as alternatives to the Administration program, but that deep divisions existed within the caucus on the tax program.

While the Democrats bided their time, House Republicans engaged in a bitter 3-way struggle. One group opposed any form of personal income tax, favoring instead a greatly reduced spending program to be financed if necessary by an increase

in sales tax. A second group favored an income tax to raise new money and to accomplish some structural reform, but insisted that such a tax should take the form of a flat rate county income tax, to be enacted in each of the state's 88 counties under a legislative mandate, and to return all its revenue to local governments in the county of origin. A third group favored a personal income tax, but only if it were a state income tax with graduated rates.

Other differences existed within both parties over such matters as the form and amount of property tax relief, the proposed repeal of the intangibles tax, and the balance between business and personal taxes. The key issue was the extent of sales tax broadening in the area of business purchases. While the major business organizations were united in determined opposition to any narrowing of the direct-use exclusion, organized labor was just as firmly committed to achieving a narrowing or total repeal of this exclusion, as the price of their support for a tax program containing a personal income tax.

The mid-May target date for completing House action came and went without any tax bill having been reported out of the House Ways and Means Committee. Meanwhile the Republican caucus had reached agreement on an alternative school finance and general appropriations package. Near the end of May, the House leadership, seeing no early solution to the tax deadlock, decided to go ahead and report out the expenditure program for floor action. In a hectic session the Republican-drafted appropriations and education bills were reported out of committee by a straight party-line vote and, under a suspension of the rules, sent directly to the floor of the House.

There followed a parliamentary maneuver that deserves to go down in the books. Immediately as the floor was opened for debate on the bill (which most Democratic legislators had not seen, much less read) a Republican legislator rose to move amendment of the bill to substitute in its entirety the language of the original administration bill. Democrats, caught by surprise and aware that they could not muster votes to pass the Administration budget intact, caucused briefly and then joined Republicans in voting unanimously against the proposed amendment.

House Democrats no doubt expected that by defeating the in-toto substitution of the Administration budget they would gain the opportunity to propose specific amendments that might gain approval, and thereby restore at least some of the cuts contained in the Republican bill. They were quickly disabused of this notion, however, for when they moved amendments to restore specific sections of the Administration bill the Speaker ruled such amendments out of order on ground that the matter had already been considered and disposed of. The conclusion of the session saw a frustrated and angry Democratic minority helpless to block passage of the Republican budget, which carried by a near party line vote.

In steam-rollering its own expenditure program, however, the House leadership committed a strategic error. The expenditure program was clearly a Republican program. While considerably smaller than that proposed by the Administration, it still contained enough increases to require additional taxes. House Democrats, smarting from their merciless beating on the budget, were now content to sit back and dare Republicans to come up with their own tax program. Divided as they were, this proved no easy task.

The expenditure program having been moved on to the Senate, the struggle in the House over the tax program intensified. Repeated efforts by the leadership to fashion a compromise tax program failed. The fiscal year came to a close, necessitating legislative action on an interim budget, and still no tax program had been reported out of the Ways and Means Committee.

Finally in mid-July, after intensive backstage negotiating, agreement was reached to vote out a compromise tax program and bring it before the House. The compromise resembled the Governor's initial proposal in broad outline but was considerably reduced in size. It contained the following features.

1. Corporation franchise tax based on the greater of (a) present five mill tax on net worth or (b) a new tax on net income of 4% on first $25,000 and 8% on balance.

2. Graduated state income tax imposed on individuals at rates from 1% to 4% of federal adjusted gross income, allowing $500 exemptions for dependents up to constitutional limit of $3000.

3. Tangible personal property tax assessment levels reduced in annual steps from 70% (5 years) and 50% (4 years) to 40% for all taxable property.

4. Approximate 10% across-the-board reduction in real estate taxes, financed by using income tax funds to pay part of real estate tax bills. The reduction would apply to both individuals and business but not to personal property.

5. Repeal of intangibles taxes on stocks, bonds, investments, etc.; Taxes on shares of financial institutions and dealers in intangibles would be increased one mill each; domestic insurance company tax increased from two to three mills.

6. Property tax exemptions for aged 65 and older homeowners....$1,000 of assessed value regardless of income and $2,500 of assessed value if income is less than $6,000--financed by estate tax increase.

7. Substantial narrowing of the "direct-use" exclusion under the sales tax.

In floor action, two significant amendments were adopted. One, an obvious concession to Democrats still enraged over the tactics used on the expenditure bill, restored about $167 million that had been cut from the administration budget. Although to add an appropriation item to a tax bill might seem to violate House rules of procedure, the issue was not raised.

The second amendment was far more controversial. The leadership of both parties in the House evidently believed they had sufficient votes to pass the compromise package in its entirety. On the floor, however, an amendment was offered by a conservative Republican to leave the direct-use exclusion unchanged (i.e., to eliminate item 7 in the above list). To the apparent surprise of the leaders the amendment carried, all affirmative votes being cast by Republicans. Immediately labor-oriented legislators, believing they had been double-crossed on this central point in their tax program, threatened to withdraw their support from the compromise tax package. Quick action by Administration forces headed off the revolt and the compromise package was passed without the controversial provision narrowing the direct use exclusion.

The House passed tax program was estimated to produce, net, more than $1.0 billion in new revenue in the fiscal 1971-73 biennium. This fell about $73 million short, however, of covering the appropriations-education bill approved earlier.

Senate Action

As the Senate began its deliberations on the budget-tax program, the State was already several weeks into the 1971-73 biennium. The Senate Ways and Means Committee began work promptly on the bill passed by the House, held two weeks of hearings, and at the end of July sent the bill to subcommittee for critical review and appraisal.

Unlike the House, the Ohio Senate had not had the experience of having considered income tax proposals in the preceding session. Most senators had a relatively open mind on the issues and were not bound by public statements or commitments. In particular, no senators were committed either intellectually, emotionally, or politically to the

idea of a flat rate county income tax, which had proved such a troublesome diversion in the House.

Nevertheless ideological cleavages were quick to form. Perhaps surprisingly, the corporate income tax was relatively noncontroversial, as had been true also in the House. Controversy centered rather on the personal income tax. Among Republicans the basic division was between a majority who opposed the personal income tax and the expenditure increases that would have necessitated it, preferring instead a smaller expenditure package financed by a sales tax increase (perhaps coupled with a corporation income tax), and a minority who favored or would at least accept a personal income tax. Among Democrats the division was between those who would go along with a personal income tax and those who were determined to oppose it unless the bill restored the direct-use amendment, which was eliminated on the floor of the House, or included some other additions to business taxes.

As August wore on, the Senate Ways and Means Committee busied itself with technical and perfecting revisions in the income tax bill. Many of these restored provisions that were contained in the original Administration proposal but were knocked out by the House. At the same time it readied an alternative smaller package centered on a corporate income tax plus a sales tax rate increase.

Labor Day came and went with negotiations still continuing behind the scenes in an unsuccessful effort to line up enough votes to pass either the "high budget" with a personal and corporate income tax or the "low budget" with a corporate tax plus a sales tax increase.

In the Ohio Senate 17 votes are needed to pass a bill. At no time could more than a half dozen Republican votes (out of 20) be counted for the income tax program. This meant that Democrats had to muster 11 or 12 of their 13 votes if the bill were to pass. But a bloc of about 6 labor-oriented Democratic senators steadfastly refused to give their support to the bill unless it included a significant narrowing of the direct use rule. Moves in that direction, however, would cause loss of some of the Republican votes needed for passage. Various alternatives were explored in behind-the-scenes negotiations, including adding new taxes on financial institutions, insurance companies and extractive industries. But each lost about as many votes on one side as it gained on the other. Some Democratic strategists, convinced that it would be a mistake to pass a "Democratic" tax program, favored leaving it to the Republican majority to bell the cat. Republicans were equally reluctant to bear the onus for any new taxes.

Finally it was the Republican majority that broke the deadlock. In late September the Senate by a near party line vote approved a greatly reduced budget to be financed by a

new corporate net income tax plus an increase in the sales tax. The specific provisions were:

1. A corporate franchise (net income) tax of 3½ percent on the first $25,000 and 6½ percent on the balance.

2. Sales tax increase from 4 to 5½ percent.

3. Extension of the sales tax to certain services, mostly services to businesses.

4. Increase of the cigarette tax from 10 to 15 cents per pack coupled with exemption from sales tax for a net increase of 3 cents per pack, plus a new tax of one cent on each cigar.

5. An increase in the rate of tax on deposits and shares of financial institutions.

6. An increase in the tax on domestic insurance companies.

7. Property tax exemptions for aged homeowners.

8. A reduction in tangible personal property assessment levels to 45% over a 5-year period.

The bill was estimated to yield an additional $700 million for the biennium (based on a November 1, 1971 effective date). Seventeen Republican senators and one Democrat voted for the bill; twelve Democrats and 3 Republicans opposed it.

Senate approval of a corporate income tax - sales tax package helped in some ways to clear the air. Many who were lukewarm or hostile to new income taxes came to see that there were alternatives that were even worse. Almost no one openly favored the Senate program. Spending lobbies opposed it on ground that it simply did not raise enough money. Labor's opposition to a sales tax increase was more fervent than to the income tax. And business groups perceived that enactment of a corporate income tax unaccompanied by a personal income tax would almost certainly portend further increases in business taxes in the future. Recognizing the political obstacles a future legislature would face in considering a personal income tax, the corporate tax already having been enacted, business tended to view the two taxes as cards that had to be played together, not singly.

With adoption of the Senate bill with its radical differences from the House-passed bill the issue went to conference committee where intensified negotiations continued. But several new elements were added. One was the conflict between Senate and House leaders. The latter had bled and died to achieve House agreement on an income tax program, only to see it scuttled in the Senate. Nor had the House ever given

serious consideration to the elements contained in the Senate-passed bill. A second new element was injected when spokesmen for organized labor softened their opposition to a personal income tax, implying that a compromise might be possible that would receive the votes of the labor-oriented bloc in the Senate.

The entire month of October was consumed in intensive backstage negotiations as the Conference Committee (consisting of two Republicans and one Democrat from each house) struggled to put together a compromise program that could pass both houses. Because of the belated winning over of the labor bloc in the Senate to a personal income tax, attention focused almost exclusively on the income tax package. But agreement proved to be elusive. The package that would ensure near-unanimous Democratic support (including additional business taxes), could not retain crucial Republican votes. When changes were proposed to attract Republican votes, some Democratic support would vanish.

As negotiations dragged on, pro-sales tax forces in both houses grew increasingly restive and pressured the leadership to allow the Senate budget-tax package to be brought to a vote. Early in November the Conference Committee acceded to this course of action and reported out a budget calling for a 1½ cent increase in the retail sales tax and a corporate net income tax of 4% on the first $18,000 of corporate income and 7% on the remainder. Administration spokesmen and other supporters of the house-passed personal and corporate income tax program expressed confidence that the House (to which the compromise would go first) would reject the Senate approach. Their confidence was borne out when on November 9 the House voted 66 to 28 to reject the Conference Committee report. All votes to pass came from Republicans; voting to reject the compromise were 24 Republicans and 42 Democrats.

The House vote finally laid to rest talk of a sales-tax solution to the 1971-73 budget crisis and cleared the air for serious consideration of the income tax approach. The question of exact form remained. A second Conference Committee, appointed after rejection of the sales tax package, went to work quickly and on November 12 reported out a proposal containing as its major features:

1. Corporate net income tax to be levied <u>in addition to</u> the existing net-worth based franchise tax.

2. Graduate rate personal income tax.

3. "Circuit-breaker" approach to tax relief for homeowners, and for corporations.

4. Reduction in assessment levels for all forms of business tangible personal property.

5. 3-cent increase in the state cigarette tax.

6. Property tax exemption for aged homeowners.

7. Rate increases in taxes on banks and insurance companies.

Optimistic expectations that the magic formula had been found collapsed when Governor Gilligan, apparently to the surprise of legislative leaders in his own party, labeled the compromise unacceptable on ground that it was excessively favorable to certain business interests. When it came to a vote in the Senate on the next day (November 13) it was rejected by a vote of 23 to 10. Nine of the 10 votes to approve came from Republicans.

The following week a third conference committee tried its hand at finding a solution. Their attention focused on the so-called Taft-Flannery compromise, which had been worked out over a period of weeks by Senator William W. Taft (R-Cleveland) and Representative James J. Flannery (D-Cleveland). Following this basic plan the committee within a week reported a personal-corporate income tax program differing from the one previously rejected in the following respects (in addition to minor differences in rate structures):

1. Corporate tax to be the greater of existing net-worth franchise tax or new net income tax.

2. No reduction in assessment level for machinery and equipment.

3. New state severance tax.

4. Across the board reduction in real estate taxes instead of circuit-breaker.

Other features--graduated personal income tax, cigarette tax increases, homestead exemption, and others were the same as in the previous package.

Hopes again ran high that this compromise would gain the necessary 17 Senate votes and break the long stalemate. But again something went wrong. When the bill came up on November 22 it failed by a vote of 17 to 15. Twelve Democrats and 3 Republicans favored the compromise; one Democrat and 16 Republicans opposed it.

A week later on November 29, a Republican senator moved to reconsider the bill. It is thought by some that at that time the necessary votes might have been mustered for passage. But Democratic senators, possibly because of a mixup in signals, voted against reconsideration, thus finally killing

the Taft-Flannery compromise. Thereupon a fourth Senate-House Conference Committee was appointed.

Using the Taft-Flannery compromise as a starting point, the fourth Conference Committee over a period of a week worked out a slightly modified package and reported it out on December 9. Later the same day the Senate finally, for the first time, voted for an income tax package. The vote, 17 to 15, found 6 Republicans joining 11 Democrats in support of the compromise, while 2 Democrats and 13 Republicans opposed it. The next day the House added its approval by a vote of 56 to 42--13 Republicans voting for the bill and 2 Democrats against. Thus ended the longest legislative stalemate in Ohio history. On December 20, amid great ceremony, Governor Gilligan signed the tax-budget bill into law, giving Ohio its first state personal and corporate income taxes.

The basic elements of the tax program as finally adopted are as follows:

1. Graduate personal income tax, based essentially on federal adjusted gross income, with $500 allowed for each dependent up to a maximum of $3,000, with rates of ½% on the first $5,000;
   1% on $5,000 - $10,000;
   2% on $10,000 - $15,000;
   2½% on $15,000 - $20,000;
   3% on $20,000 - $40,000;
   3½% on income above $40,000

2. Corporate franchise tax based on the greater of (a) 4% of first $25,000 of net income plus 8% of balance, or (b) ½% of net worth.

3. Tangible personal property assessment levels reduced for inventories from 50% to 45% over a 3-year period and for furniture and fixtures, from 70% to 50% over a 5-year period. Machinery and equipment unchanged at 50%.

4. New state severance tax of 4¢ per ton on coal and salt, 1¢ per ton on limestone, dolomite, sand and gravel, 3¢ per barrel on oil and 1¢ per 1,000 cubic feet on natural gas.

5. Increase from 10¢ to 15¢ per pack in cigarette tax, accompanied by exemption from sales tax for a net increase of 3¢ per pack.

6. Increase from 2 to 3 mills in tax on shares of financial institutions, and from 5 to 6 mills for dealers in intangibles.

7. Increase from 2 to 3 mills in tax on net worth of domestic insurance companies.

8. Across the board reduction in real estate taxes of 5% in first year, 10% thereafter, revenue loss of local governments to be made up by state payment.

9. Property tax exemption for homeowners aged 65 or older, ranging from $5,000 of assessed valuation for those with family income under $4,000 to no exemption if income exceeds $8,000.

The budget as finally adopted called for total general fund expenditure of $4.3 billion for the biennium (Table 1). This was an increase of more than 40% over that of the 1969-71 biennium, but was 24% lower than Governor Gilligan had requested in March.

The new taxes provided in the compromise package would raise $938 million in new revenue, or less than half the amount called for by the Governor's original program (Table 2). Some of the difference was accounted for by the postponement of effective dates; thus the personal income tax finally adopted was estimated to constitute only a little more than a third as much as the original proposed for the biennium, though on a full year basis the yield was estimated at about half that of the Administration's proposal. The net new revenue, after allowance for reduced or repealed taxes, was estimated at $701 million, compared with almost $1.5 billion called for by the Governor's budget.

The Fiscal Realities - An Inexorable Force

It can fairly be said that the Gilligan Administration and the 109th Ohio General Assembly did not tackle the issue of tax reform and new state income taxes purely out of idealistic concern for a better balanced and more equitable tax structure. More important was the simple fact that the state needed more money. Rarely if ever does a state undertake major tax structure changes except in context of a fiscal crisis. While Ohio's fiscal crisis was less dramatic than those of many other states it was nevertheless genuine. The severity of the problem is indicated by the fact that nearly all the state's political leaders, whatever their other differences, agreed on one point: something had to be done.

The fiscal crisis in Ohio did not involve accumulated debts, unpaid bills or a badly unbalanced budget; the constitution and statutes of Ohio are very restrictive on deficit financing. Instead it took the form of a gradually widening gap between demand for public services and the ability of the state and its local governments to respond. The result

Table 1

OHIO GENERAL REVENUE FUND SUMMARY: 1969-1971 Expenditures, 1971-1973 Executive Budget, House and Senate Appropriations Bills

	1969-1971 Biennium Expenditures	1971-1973 APPROPRIATIONS			
		Executive Budget	House Bill	Senate Bill	Final Adopted
	millions of dollars				
EDUCATION:					
Elementary and Secondary	$ 1,100.3	$ 1,934.6	$ 1,585.7	$ 1,471.8	$ 1,490.9
Higher Education	502.2	652.8	645.8	603.9	608.4
Libraries and Museums	5.2	126.1[1]	23.9	6.0	6.1
Delinquent Property Tax Fund	--	--	7.4	--	--
Total Education	$ 1,607.7	$ 2,713.5	$ 2,262.8	$ 2,081.7	$ 2,105.4
PUBLIC WELFARE	855.0	1,860.1	1,478.6	1,283.0	1.279.3
SOCIAL SERVICES	401.8	580.6	574.5	529.5	525.1
ENFORCEMENT AND JUDICIAL	28.2	32.0	32.1	29.8	30.5
GENERAL GOVERNMENT	104.8	174.6	157.4	136.7	143.3
PROMOTION OF INDUSTRIAL DEVELOPMENT, RECREATION, TRANSPORTATION	55.9	78.4	70.4	68.6	69.9

Table 1 (con't.)

OHIO GENERAL REVENUE FUND SUMMARY: 1969-1971 Expenditures, 1971-1973 Executive Budget, House and Senate Appropriations Bills

	1969-1971 Biennium Expenditures	1971-1973 APPROPRIATIONS			
		Executive Budget	House Bill	Senate Bill	Final Adopted
	millions of dollars				
CAPITAL PROJECTS AND DEBT SERVICE	8.7[2]	85.9	85.9	85.9	85.9
UNALLOCATED PLANNED EXPENDITURES: Civil Service Pay Increase, Emergency Funds and Retirement Benefit Adjustment	--	--	126.0	69.5	88.7
OTHER	.3	.3	.3	3.0[3]	.3
TOTAL	$ 3,062.4	$ 5,664.3	$ 4,787.9	$ 4,287.7	$ 4,328.4

NOTE: Detail may not add to totals due to rounding.

[1]Replacement of intangibles tax

[2]Now carried in General Revenue Fund

[3]Includes school aid advance funds

Source: Ohio Department of Finance

Table 2

OHIO GENERAL REVENUE FUND: Estimated Revenue Impact of Proposed Changes, 1971-73 Biennium

	Executive Budget	House Bill	Senate Bill	Final Enactment
REVENUE GAIN FROM NEW OR INCREASED TAXES				
Personal income tax	$1,488.3	$1,090.5	--	$525.3
Corporate income tax (net)[1]	352.0	345.0	216.2	340.0
Revision of direct use	287.7	--	--	--
Cigarette tax (net increase)	--	--	67.6	61.4
Mixed beverage tax	--	--	.3	.3
Domestic insurance companies	--	1.4	1.4	1.4
Financial institutions and dealers in intangibles	--	3.1	3.1	3.1
Severance tax	--	--	--	6.5
Sales tax increase	--	--	448.3	--
Cigar tax	--	--	7.3	--
TOTAL	$2,128.0	$1,440.0	$744.2	$938.0
REVENUE LOSS FROM REDUCED OR REPEALED TAXES				
Homeowner property tax credits	200.0	--	--	--
Business property tax credits	80.0	--	--	--
Intangibles tax repeal	98.8	98.8	--	--
Homestead exemption (senior citizens)[2]	--	45.0	30.0	30.0
Tangible personal property tax reduction[2] [3]	--	33.7	16.5	11.5
Real estate tax reduction[2]	252.2	243.0	--	195.3
TOTAL	$ 631.0	$ 379.5	$ 46.5	$236.8
NET NEW REVENUE	$1,497.0	$1,060.5	$697.7	$701.2

[1]Net revenue gain, after subtraction of revenue loss from repeal or revision of existing franchise tax.

[2]On accrual basis.

[3]Loss of revenue to local governments, not compensated for by state payments.

Source: Ohio Department of Taxation and Department of Finance.

was closed schools, decertified state hospitals and mental institutions, substandard state pay scales, welfare payment rates well below the state's own minimum standard, and an inability to fund new initiatives in control of drug abuse, environmental protection and other areas of growing public concern.

In 1969-70 the state of Ohio and its local governmental subdivisions spent 17 percent less per capita than the national average (Table 3). The state ranked 40th in the nation in per capita support of public services, and 9th among the top 11 industrial states. The same general relationship held for most of the major functions. Since Ohio is somewhat above the national average in per capita income, the state's rank in expenditure per $1000 of income was still lower. Moreover, Ohio's position, always relatively low, had deteriorated markedly and steadily over the years (Table 4).

Some may argue, of course, that low spending is not necessarily an indication of low public sector performance, but may reflect exceptional efficiency. This argument was in fact stressed by the Rhodes Administration and its supporters. It may also be argued that low public expenditure is merely a reflection of voters' preference patterns for private as opposed to public use of available resources. Both arguments, though impossible to prove or disprove, have some plausibility in the Ohio situation. Yet there is reason to believe that Ohio's low public spending results to a large extent from built-in limits on the ability of Ohio's revenue structure to generate "enough" revenue. There are, in other words, institutional barriers in Ohio that tend to hold public expenditure to a level well below that which would equate marginal benefits with marginal costs. Five such barriers are discussed in the following sections.

The Ohio Tax Structure - a "Fine Old Antique"

Various structural features of Ohio's state-local tax system impede the raising of public revenue. These features are all associated with the fact that Ohio retained into the seventies a tax structure that was essentially a product of the depression years of the thirties. Many of its features had been deliberately designed to meet problems of that time. It is hardly surprising that they proved ill suited to the needs and demands of a rapidly growing, inflation-prone economy.

1. Low elasticity. In times of depression or fear of depression, stability in revenue becomes a prime objective. But in times of economic growth and rising prices, revenue inflexibility presents a problem. According to the Advisory Commission on Intergovernmental Relations, in 1968 Ohio's

Table 3
MAJOR CATEGORIES OF STATE AND LOCAL GENERAL EXPENDITURE, UNITED STATES, OHIO AND 10 OTHER INDUSTRIAL STATES, 1969-70

State (In order of Value Added by Mfg. in 1969)	General Expenditure per $1,000 Pers. Income	General Expenditure Per Capita: Total	Education: Total	Education: Local Schools	Education: Institutions of Higher Educ.	Education: Other Educ.	Highways	Public Welfare	Health and Hospitals	State Rank In General Expenditure: Per $1,000 Pers. Income	State Rank In General Expenditure: Per Capita
U.S. Average	176	646	259	184	64	11	81	72	48	--	--
New York	206	919	306	235	51	19	70	134	97	11	4
California	201	841	286	206	74	6	81	148	55	16	7
Ohio	142	535	223	162	57	4	78	43	34	49	40
Illinois	141	603	259	182	67	9	64	58	40	51	31
Michigan	172	677	319	216	89	14	63	67	52	34	16
Pennsylvania	163	597	242	182	33	27	87	69	34	39	32
New Jersey	143	604	237	186	39	13	81	53	38	48	30
Texas	154	503	218	156	57	5	79	48	34	46	47
Indiana	142	516	275	182	82	10	62	27	40	50	46
Massachusetts	172	603	214	168	38	9	72	133	52	32	14
Wisconsin	199	692	309	188	109	12	94	68	44	18	13
Ohio as percent of U.S. average	81	83	86	88	90	34	80	80	84		
Ohio's rank among 50 states and D.C.	49	40	40	34	36	51	36	40	37		
Ohio's rank among 11 top industrial states	10	9	9	10	7	11	6	10	10		

Source: U.S. Bureau of the Census, Governmental Finances in 1969-70.

Table 4

OHIO IN RELATION TO U. S. AVERAGE AND TOP 11 INDUSTRIAL STATES,
Selected Categories of State and Local Expenditure
Selected Years, 1957 to 1969-1970

	1957	1962	1964	1969-70
Total General Expenditure per capita -				
Ohio as percent of U. S. average	94%	89%	85%	83%
Rank among 11 industrial states	8	9	10	9
Rank among 50 states and D. C.	32	38	40	40
Total General Expenditure per $1,000 Personal Income -				
Ohio as percent of U. S. average	84	87	83	81
Rank among 11 industrial states	8	9	9	10
Rank among 50 states and D. C.	43	45	48	49

Source: U. S. Bureau of the Census, Governmental Finances in 1969-70.

state tax system was least elastic of all the states (Table 5). Low elasticity reflects Ohio's heavy relative dependence on (1) property-based taxes, which are inherently unresponsive to economic change, and which in Ohio are especially inelastic because of a unique rate roll-back provision designed to offset growth in revenue due to reappraisal; and (2) sales and excise taxes, which also have low elasticity, the former because it does not reach the most expansive component of consumer expenditure (i.e., personal services), and the latter because they are tied to number of units sold (e.g., 10¢ per pack of cigarettes) and not to the price of the item.

The inelasticity of Ohio's revenue structure goes far to explain why its taxes remained so low in relation to fiscal capacity, despite rate increases in property taxes, excise taxes, the sales tax, and the corporation franchise tax.

2. Uneven impact. While Ohio pre-1971 taxes average low, they impact very unevenly. Some people, some businesses, and some communities are hit very hard, while others are almost completely missed. Many highly profitable and rapidly growing industries and economic activities lie beyond the reach of the existing tax system. In general these are activities (e.g., consulting, advertising, the professions) that generate large income but have little taxable property. The cause of the problem again lies in heavy reliance on sales taxes and property taxes. Property taxes, because they are such an important part of Ohio's tax system and because they are levied by many hundreds of small local units, are especially uneven.

Many people have speculated on the question of what sets the limit to a state's ability and willingness to tax its people and its industry. One possible answer is that the limit is reached at the point where a few sizable and vocal segments of the taxpaying public can argue convincingly that higher taxes would wreak serious hardship on its members. In a state where the tax structure places great burdens on some while others escape almost untouched, this ceiling may be reached at a fairly low level of average tax burden. This appears to have been the case in Ohio.

3. Regressivity. Ohio's state and local taxes, in terms of effective rate on family income, were estimated as of 1968 to average more than 2-1/2 times as heavy on families with income under $3,500 than on families with $50,000 or more (Table 6). Other studies show much the same pattern. Moreover, Ohio's pre-1971 tax structure was apparently more regressive than those of most other states.

Part of the reason for the regressivity of Ohio's tax structure is the sales tax, which tends to be regressive in its impact. Because of the exemption of food for off-premises consumption, however, the Ohio sales tax is not strongly regressive and in fact appears to be roughly proportional

TABLE 5

RESPONSE OF STATE TAX STRUCTURE TO ONE PERCENT CHANGE IN PERSONAL INCOME, 1968

State	Estimated Elasticity	Ranking (from highest)
Ohio	.79	50
Texas	.80	49
New Jersey	.82	47
Connecticut	.84	46
Pennsylvania	.86	43
Illinois	.92	37
Michigan	1.04	25
Indiana	1.09	20
California	1.13	16
Massachusetts	1.21	11
Wisconsin	1.21	10
Minnesota	1.22	9
New York	1.32	4
All States	1.08	

Source: ACIR, State and Local Finances: Significant Features 1967 to 1970, p. 67.

TABLE 6

DISTRIBUTION OF STATE-LOCAL TAX BURDENS RELATIVE TO FAMILY INCOME SIZE, 50 STATES AND ALL-STATE AVERAGE, 1968

(Tax Burdens as Percentages of Income)

State	Adjusted Gross Income, Family of Four, 1968						
	$3,500	$5,000	$7,500	$10,000	$17,000	$25,000	$50,000
California	12.1	9.8	8.3	7.9	6.3	6.9	6.6
Connecticut	14.6	11.7	9.5	8.2	5.9	5.6	4.4
Indiana	15.4	13.1	11.2	10.1	7.5	7.3	5.7
Massachusetts	14.3	12.1	11.2	10.3	7.6	7.5	5.5
Michigan	12.9	11.1	9.5	8.9	6.9	6.8	5.2
Minnesota	12.2	11.3	10.8	10.7	8.4	8.7	6.8
New Jersey	16.3	13.4	10.9	9.6	6.7	6.5	5.2
New York	13.2	11.5	10.5	10.2	8.3	9.7	9.8
Ohio	10.9	9.1	7.6	6.8	4.8	4.7	3.9
Pennsylvania	15.4	13.0	11.1	9.9	7.0	6.7	5.2
Texas	11.3	9.1	7.5	6.5	4.6	4.5	3.7
Wisconsin	15.7	13.8	12.5	12.2	9.3	9.9	8.2
All States	12.8	10.9	9.4	8.7	6.5	6.5	5.4

Source: Stephen E. Lyle and Don M. Soule, "Interstate Differences in Family Tax Burden," National Tax Journal, December 1969, pp. 433-445.

to income except in the lowest and highest brackets (Table 7). The most important reason is the property tax, which in its final incidence is usually thought to be very regressive.

The regressivity of Ohio's tax structure is another legacy of depression tax policy; when everyone's income is low, the only way to raise revenue is by taxing the poor. The degree of regressivity in a state's tax structure bears a plausible relation to the willingness of citizens to tax themselves. It may be that the people of Ohio have been saying in effect "we don't want any increased public services if we will have to pay for them through the same old unfair and regressive taxes." Such an attitude would help to explain Ohio's unusually low level of state-local taxes.

4. Fiscal disparities. Ohio's heavy relative dependence on local taxes, especially property taxes, has produced a situation of fiscal mismatch between public service needs and taxable resources. Among school districts, for example, assessed value in 1970 ranged from $205,000 per pupil in the industrial enclave of Cuyahoga Heights to a low of $3,090 in a rural district in Ross County. School levies ranged from 45.8 mills in Chardon (Geauga County) and Perry Local (Lake County) to 9.1 mills in Cuyahoga Heights. Generally speaking, property-rich districts tend to spend more per pupil and to tax at lower rates. One result is a pattern of inequality in school support and in tax levels on homeowners and businesses. Another is that despite Ohio's abundant taxable resources, much of the tax base lies beyond the reach of the local government units that need the revenue.

The problem reflects Ohio's great relative emphasis on local (as opposed to state) taxes and in the fragmentation of the local tax base. Forty years ago a large part of economic activity was local in character and public services often matters of purely local concern. But by 1971 local fiscal self-reliance retained little viability as a state tax policy.

5. The property tax limit. The Ohio Constitution limits to 10 mills the aggregate of all levies that may be imposed on any property, except by vote of the people. This limit, which is probably the most restrictive to be found anywhere in the nation, has had the effect of requiring local governments--especially school districts--to depend on voter-approved levies for the revenues on which their very existence depends. For a variety of reasons that need not be detailed here, voters often reject proposed property tax levies. In Ohio, school operating levies long were a special case, almost always receiving approval. Throughout the 1960's, however, there was a decline in the percentage of proposals gaining approval. At the same time the average property tax rate increased steadily, as did the share of school revenues obtained from the local property tax. By 1971, it seems fair to say, many Ohioans had pretty much had it with the property tax.

TABLE 7

ESTIMATED EFFECTIVE RATIO OF STATE AND LOCAL TAXES IN OHIO AS A PERCENTAGE OF MONEY INCOME OF OHIO RESIDENTS, BY INCOME BRACKET 1966

Tax	Income Bracket								
	Under $2,000	2,000 to 3,000	3,000 to 4,000	4,000 to 5,000	5,000 to 6,000	6,000 to 7,500	7,500 to 10,000	10,000 and over	Total
Real and Tangible Personal Property	11.38%	8.30%	6.04%	5.06%	4.74%	3.71%	3.40%	2.60%	3.72%
Retail Sales and Use	1.75	1.31	1.07	1.17	1.35	1.16	1.47	0.91	1.14
Other[a]	5.73	4.45	4.62	3.97	3.96	3.33	3.10	2.40	3.08
TOTAL	18.86	14.06	11.73	10.20	10.05	8.20	7.97	5.91	7.95

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Source: Ohio Tax Study Commission Report, 1967, pp. 34-35.

[a]Includes excise taxes, motor fuel taxes, business taxes, inheritance and estate tax, municipal income and intangible property tax.

These 5 features of the Ohio state local tax structure, all legacies of policy decisions adopted long ago under quite different economic conditions, help to explain Ohio's inability by the late sixties to finance public services at levels consistent with the demands and aspirations of its citizens. They help to explain also the almost unanimous pressures in 1971 for additional state tax revenues, and the considerably less than unanimous belief that income taxation would not only produce the needed revenues but would also remedy some chronic structural defects.

Municipal Income Taxes

The fiscal situation of Ohio in 1971 was vastly complicated by the existence of more than 300 municipal income taxes. Only Pennsylvania rivals Ohio in the widespread use of this form of tax. These taxes, though varying in rate and administrative procedures and in their treatment of commuter earnings, were uniform in coverage ("earned" income, both personal and corporate), in the absence of exemptions or nonbusiness deductions, and in having flat rates.

The circumstances that led to the emergence and spread of municipal income taxes in Ohio were reviewed earlier. In retrospect, it would probably have been wiser for Ohio to develop some other answer to its urban fiscal problems. By 1971, however, it was too late to consider dismantling the municipal income tax structure. The practical issue was whether and how to integrate municipal income taxes with a new state personal and corporate income tax. The recommendations of the Citizens Task Force on Tax Reform, the Governor's tax program, and every version of the income tax that was given serious consideration in the legislature, all left the existing structure of municipal income taxes strictly alone.

In some respects the existence of many city income taxes may have paved the way for enactment of a state income tax. The city tax, though different in form from a state income tax, gave 4 out of 5 Ohioans first hand familiarity with an income tax other than the federal. Also the business community, experiencing the growing complexities and costs of multiple filings of municipal returns, came gradually to see merit in a single state tax as a preferable alternative or at least as a way of forestalling further local enactments. Labor too had reason to prefer a graduated state tax to the flat rate "wage" tax.

On balance, however, the city income taxes were a stumbling block. Neither business nor labor groups were numbered among those pushing for a state income tax, so their dislike of the municipal taxes proved not to be a deciding factor.

Municipal officials, on the other hand, disliked the idea of the state fishing for revenues in their pond. They were concerned also over the possibility that the state might force "piggy-backing" of municipal taxes on the state tax. To do so would necessitate adoption of some uniform rule governing taxation of commuter income, in place of the variety of patterns that had evolved in the several metropolitan areas of the state. Moreover piggy-backing would probably require abandoning the business portion of the city tax, with revenue consequences ranging from negligible to devastating for individual cities. Theoretically the revenue loss that would be inflicted on cities could be compensated by distribution of a portion of state income tax revenues. In practice, however, it is nearly impossible to devise a distribution formula that would even roughly match the pattern of revenue loss among cities.

Because of these concerns the municipal organizations opposed a state income tax until the late sixties. In 1969 the Ohio Municipal League modified its position from outright opposition to one of insisting on adequate protection to the fiscal position of cities, should the state enter the income tax field. Subsequently the League concentrated its efforts on seeking (1) to avoid a forced repeal or piggy-backing of municipal levies; (2) to gain the right to levy a 2% (rather than only 1%) tax by councilmanic action (i.e., without prior referendum); and (3) to gain a sizable share of any new state distributions to local governments.

Pressures for property tax relief

Ohio property taxes in 1971, even with the increases of the previous two decades, were not especially high in comparison with the states. They did, however, generate a greater proportion of state-local tax revenue than was common among the states. Property taxes unavoidably placed painful burdens on some (those with low income/property ratios), even at low average rates. These fiscal facts, coupled with the political fact that various influential groups felt themselves to be unduly burdened, made pressure for property tax relief one of the main considerations in the 1971 tax reform movement.

Senior citizens are an organized and influential group in Ohio, as in many other states. Because many retired persons live on reduced incomes, because property taxes on their homes often continue to rise, and because few of them have children in public schools, the case is made that it is "only fair" that they be given property tax relief. Most commonly relief is sought in the form of exemption of part of the assessed value of a home owned and occupied by a senior citizen.

Responding to these concerns and pressures, the Ohio General Assembly in 1970 proposed a consitutional amendment authorizing enactment of such an exemption, and it was overwhelmingly approved by the voters in November. Most legislators interpreted the results as a mandate to enact a senior citizen property tax relief measure.[5] The revenue loss, which could vary from perhaps $5 million to as much as $50 million depending on the form and generosity of the exemption, had to be recognized in the 1971 fiscal program.

Farmers and homeowners were also strong in their pressures for property tax relief. Besides looking for relief from future property tax increases, which enactment of a new elastic form of tax would tend to bring, these groups were demanding reductions in existing property tax levels. The fact that earlier income tax proposals such as that advanced by the Sealy Committee in 1968 and 1969 had emphasized property tax reduction led to high expectations. The form of relief was thought less important than the amount. Some favored a "circuit breaker" approach to tax relief, others a rate rollback, still others an across-the-board cut in property tax bills, and a few held out for outright repeal of the property tax.

The business community, in addition, has long given high priority in its tax reform recommendations to reducing or repealing the tax on tangible personal property. Ohio places heavy tax burdens on business inventories, machinery and equipment and furniture and fixtures. The state has developed unusually effective administrative procedures for listing and valuing such property. It also has a unique statutory classification of property that results in tangible personal property being assessed for taxation at higher percentages of cash value (50% to 70%, depending on the class of personalty) than apply to real estate (30-40%, depending on the county). The business community has long argued, plausibly enough but with little effect, that it makes no sense to assess personal property at a higher ratio than real estate, and that heavy taxes on tangible personal property are inequitable and produce adverse economic effects. Because of the revenue loss involved, the legislature had been reluctant to accede to pressures for tangible personal property tax

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[5]Interestingly the Ohio Constitution contains a similar "authorizing" amendment granting the General Assembly power to enact a personal income tax at flat or graduate rates. This amendment, adopted in 1912, has never been viewed by the General Assembly as a "mandate".

relief, though some reductions were granted in 1967 to farmers and merchants. Additional relief was certain to receive high priority especially if new taxes were to be imposed on business.

The net result of the strong pressures from these sources--senior citizens, farmers, homeowners, and business--was that the administration and legislature alike recognized as a fact of life that a large part of the revenue from any new taxes would need to go for property tax relief.

THE COALITION OF INTEREST GROUPS

Analysts of the public policymaking process often attach crucial significance to the role played by the various interest groups. The positions taken at various times by influential groups mark the milestones in the evolution of a public policy issue. Eventual enactment comes upon formation of a "minimum winning coalition" of pressure groups. This process can be seen at work in the tax revision episode in Ohio.

Proponent Groups

Organized support for a program of tax reform based on personal and corporate income taxes developed slowly and late. Even during the 1970 gubernatorial campaign, when both candidates were openly talking income taxation, only a few major groups were on record in favor of such a program. Some of those that one might ordinarily expect to find in the vanguard were holding back. It is far from clear in Ohio's experience that "pressure" groups pressured political leaders into tax reform. The fiscal realities discussed in the preceding section seem to have been more influential. The slowness of major groups to get behind a specific tax reform program probably reflects lack of technical knowledge on the subject on the part of both of leadership and members, a reluctance to defy an incumbent administration, and perhaps a feeling that the effort would be futile.

Among the major statewide organizations, one of the first to back enactment of new state income taxes was the Ohio Farm Bureau Federation. The largest and most influential of Ohio's farm organizations, the OFBF maintained a strong interest in tax reform dating from its co-sponsorship of the Thatcher study in 1962. It saw income taxation as a means of gaining relief from the inexorable rise in property taxes, to which farmers are especially vulnerable. On the other hand the income tax, personal or corporate, would have a relatively light impact on farmers, especially if the personal tax involved exemptions or credits and graduated rates. Until 1970 the OFBF position consisted of general endorsement of tax reform centered on income taxation. At that time the organization developed a specific program and succeeded in gaining

varying degrees of cooperation from other farm groups--the Grange, the National Farmers Organization, and the Farmers Union--in presenting a united front to the Administration and the 109th General Assembly as it addressed the tax policy issue.

The Ohio Education Association, another early proponent group, was probably the most influential organization backing the income tax program. While sharing the concern of the farm groups over ever-rising property taxes, the OEA's principal objective was to gain additional revenue for public schools. The OEA first endorsed income taxation as the route to more adequate school support in the early sixties. However by 1965 the organization had come to the view that, despite their preference for an income tax, the sales tax was the most likely source of additional school funds. Accordingly OEA took the leadership in placing on the ballot in the 1965 general election an initiative proposal to increase the state sales tax from 3% to 4%, the additional revenue to be earmarked for schools.

Following the defeat of the proposal by a substantial margin, the organization shifted its emphasis to income taxation, emphasizing the greater elasticity that such a revenue source would have. During 1969 and 1970, OEA was prominent in its support of some form of income tax in the hearings conducted by the House Ways and Means Committee--though as noted earlier nothing came of these efforts. In the 1970 gubernatorial campaign the OEA broke with its long established tradition by endorsing the Gilligan candidacy, citing his more favorable attitude toward significantly increased state school aid, and his willingness to recommend a state income tax (personal and corporate) to raise the necessary funds.

Other education-oriented groups also adopted pro-income tax positions during 1970 and early 1971. Among these were the Ohio School Boards Association, the Buckeye Association of School Administrators, the Ohio Council of PTA's, and the Ohio Public School Employees Association.

By the time the 109th General Assembly convened in January 1971, other functional interest groups were gradually coming to see income taxation as their best hope for increased state support. The Ohio Citizens Council for Health and Welfare and the Cleveland Welfare Federation, both important and influential organizations, had long favored increased state welfare support without naming preferred sources. By the spring of 1971 they had gone on record in favor of income taxation. The same evolution of a more specific pro-income tax position occurred at about the same time in various influential "public interest" groups such as the League of Women Voters and the Ohio Council of Churches.

Neutralizing Potential Opposition

Just as significant as the alignment of forces favoring the income tax program is the list of groups whose potential opposition was blunted. In a conservative state like Ohio, one must normally expect strong organized opposition to new taxes, especially income-based taxes. Business groups especially would tend to be in opposition. One of the most interesting aspects of the Ohio experience is the manner in which some of these potential sources of organized opposition were neutralized.

First it must be noted that the pre-1971 tax structure of Ohio struck hard at business in several ways. The property tax, especially on tangible personal property, was regarded by business as heavy and inequitable, and its steady rise was viewed with apprehension. The corporate franchise tax on net worth was perhaps even more inequitable in its impact. Since its rate had been increased repeatedly during the previous decade, business had good reason to fear that this would again be an obvious source of additional revenue.

There were other possible tax increases that business feared even more than a corporate and personal income tax. Some segments viewed loss of the "direct use" exclusion for business purchases as a far greater threat. Still others feared possible extension of the sales tax to many categories of personal services. Throughout the business community the labor-sponsored TRAC program (to be discussed in a later section) was seen as the most ominous threat. Consequently some of the business organizations saw personal and corporate income taxes as a less bitter pill than some others they might be forced to swallow. And some saw possibility of gain if enactment of such a tax program were coupled with reductions, especially in tangible personal property taxes.

The combination of fear of a worse alternative and hope for some long-sought tax relief caused several important business organizations, if not to campaign for the income tax program, at least not to oppose it. This was the stand adopted by the Ohio Chamber of Commerce. The State Council of Retail Merchants, though continuing to favor extension of the sales tax to services, saw an income tax program linked with reduction of personal property taxes on inventories as an acceptable compromise. The Ohio Manufacturers Association consistently opposed the income tax program, though not very vehemently.

The potential opposition of several other powerful business lobbies was averted by leaving them out of the proposed tax program. Partly because of complex technical problems, but partly for tactical reasons, both the recommendations of the Citizens Task Force on Tax Reform and the Governor's subsequent proposals specifically exempted insurance companies, public utilities, and financial institutions from any new

taxes, at the same time excluding them from all the tax relief provisions of the proposed bill. This outcome was welcomed by these industries, most of which had feared the worst from the new Governor. At the same time the Gilligan Administration announced plans for a thorough study of the tax situation of these industries, hinting that their turn would come in 1972 or 1973.

Another potential source of powerful opposition was the libraries. In Ohio, public libraries had long been supported by revenues from the intangibles personal property tax. Though in name and in legal form a tax on property (principally stocks and bonds owned by individuals), the intangibles tax actually applied to income from interest and dividends, and thus looked like an income tax. It was generally agreed that considerations of equity as well as of practical politics would require repealing the intangibles tax along with enactment of a personal income tax, in order to avoid "double taxation." Such a course would, however, leave the libraries without a source of support.

Two plans were developed, either of which would hold libraries essentially harmless. One would have retained the intangibles tax but avoided double taxation by allowing personal income taxpayers to credit part or all their intangibles tax toward their income tax liability. The other would have repealed the intangibles tax but established a separate fund from revenues from the new income tax. This fund would in turn be distributed by the state to libraries in a fashion designed to leave all libraries at least as well off as they had been. To further sweeten the package for libraries the Administration proposed to include in the 1971-73 budget a long-sought appropriation to finance development of a regional network of public libraries. As a result the library organzations, instead of opposing the income tax program, devoted their efforts toward working out the best possible arrangement for sharing in the income tax revenue.

Thus these emerged among the major statewide interest groups a configuration in which a few powerful groups were decidedly favorable to the tax program, and most of the others were either lukewarm or neutral. One may well wonder why enactment did not come promptly and by near unanimous vote. There were several elements in the explanations including inertia, fear of retribution from the masses of voters, inability to agree on details, and political jockeying by both parties to pin the new tax partly or entirely on the other.

The Position of Organized Labor

Perhaps the most important stumbling block was organized labor. In other states, labor organizations have often figured prominently in the coalition of interest groups pressing for tax reform with emphasis on personal and corporate

income taxes. Labor almost always has been found in support of heavier corporation taxes, partly under the impression that "business" bears the burden rather than "people," partly recognizing that, whether the tax is borne by consumers or by stockholders, the incidence will be largely out-of-state. Personal income taxes, on the other hand, have usually been supported by labor because of the opportunity they alone afford to introduce some progressivity into state tax structures. This consideration is especially important when the income tax is seen as an alternative to higher sales taxes.

Although organized labor favored both personal and corporate income taxes during the fifties and early sixties, by the latter part of the decade labor was no longer among those groups pressing for a personal income tax. The AFL-CIO, joined by the United Auto Workers, held that since the existing Ohio tax structure was very favorable to business, any new revenues should be derived from new business taxes or from closing loopholes in existing taxes on business. Recognizing the strong influence of business organizations in the Ohio legislature and anticipating that efforts would be made to seek any needed new revenues from an increase in the sales tax, labor moved in the late sixties to develop its own tax program and, if necessary, to place it before the voters. The route labor chose to follow involved a seldom used provision of the Ohio Constitution that allows voters to initiate legislative consideration of a proposed bill and if no satisfactory action is taken, to place the legislation in the ballot.

During 1970 the Ohio AFL-CIO and UAW, through their Tax Reform Action Committee (TRAC), developed a bill that would:

1. Permit exemptions and graduation of rates under municipal income tax ordinances;

2. Provide for a homestead exemption for retired homeowners age 65 or over;

3. Redefine personal property to include commercial motor vehicles and to provide that the tax on commercial motor vehicles be credited to the counties of the State for their loss in revenues due to the homestead exemption;

4. Make national banks, building and loan associations, insurance companies and public utilities subject to the corporate franchise tax;

5. Change the method of valuing corporate shares for the corporate franchise tax to one based on net income and establish a tax rate of four percent on the first twenty-five thousand dollars of net income plus seven percent on the excess over twenty-five thousand;

6. Change the premium tax on domestic insurance companies to the same as tax placed on insurance companies incorporated out of state;

7. Eliminate the "direct use" exclusion from sales and use taxes, but permit exemption where the item purchased will become a component part of a product;

8. Provide for a severance tax on natural resources; and

9. Repeal legislation permitting counties to enact taxes at the determination of the Board of County Commissioners.

During November and December, 1970, TRAC volunteers circulated petitions and obtained the necessary signatures (3% of those voting for Governor at the November election), thereby assuring that the TRAC program would be placed before the legislature for consideration. At the same time labor leadership vowed that if the legislature failed to act favorably on the initiated bill, it was determined to take the next step, i.e., gain an additional 3% signatures and place the proposal on the ballot.

Labor did not claim that the TRAC program represented genuine "tax reform". They viewed it rather as a stopgap, preferable to a sales tax increase, but leaving basic structural problems unsolved. Nor did labor flatly oppose a personal income tax, though this component was conspicuously absent from the TRAC package. Instead, labor took the position that they would oppose any new taxes on individuals, including a personal income tax, unless and until all or most of their proposed business taxes had been enacted. This position put the labor organizations in a stance if not squarely opposed to the Governor's tax program, at least in an uneasy and tentative compromise.

The TRAC program was clearly an embarrassment to the Governor, who had been elected with labor support. It seemed to place a gun to his head. It diverged in significant respects from the Governor's own tax proposals, and it would have raised considerably less revenue than the Governor thought would be needed. The TRAC program was viewed with even greater alarm by the business community, which feared the seductive voter appeal of a sizable tax program with no visible impact on the individual taxpayer.

As the Administration's tax program made its slow and tortuous way through legislative channels, the labor organizations did not hesitate to use the threat of the TRAC program to gain maximum leverage. The prospect of a plebscite on a program consisting exclusively of business taxes unquestionably made business interests more willing to compromise. And the prospect of defeat of the personal income tax so strongly desired by

administration forces unquestionably caused them to fight more steadfastly for the business tax components, without which labor support would vanish.

The "minimum winning coalition" that eventually brought the income tax program into law was a curious amalgam. Its most prominent members were The Ohio Education Association and The Ohio Association of Retail Merchants, the former seeing in the income tax the prospect for added support for schools, the latter seeing it as an alternative to a sales tax increase; the farm groups, which saw the income tax as an alternative to higher property taxes; the "public interest" lobbies, which saw it as a step toward a more adequate, flexible, and equitable tax structure; and the welfare organizations, who hoped to gain increased welfare funds from income tax revenues. Less prominent were certain business groups which saw it as the lesser of various evils, or the price to be paid for the tangible personal property tax relief. Reluctant supporters included the labor organizations, who held the balance of power and who exploited this strategic position to the fullest.

CAN ANYTHING BE LEARNED?

Ohio's experience over the past 2½ decades tends to bear out the thesis of a coma-convulsion syndrome that characterizes the tax policymaking process. Ohio managed throughout most of this period to avoid confronting its fiscal problems. The growing inadequacy of revenues from the existing tax structure and the worsening inbalances in tax burdens were ignored or covered up as long as possible. When at last the political cost of continued inaction rose to the point where it exceeded the cost of doing something, the coma phase gave way to a year or more of convulsive maneuvering on tax policy which paralyzed the state legislature, racked the internal power structure of both parties, forced the administration to make drastic cuts in expenditures, and stirred the general public from its usual lethargy into a frenzy of letter writing, lobbying, and forming of "ad hoc" committees.

One cannot avoid feeling that there must be a better way to make tax policy. If rational analysis offers any hope in dealing with social and economic problems, efforts must be made to substitute reasoned consideration of policy issues and alternatives for the half-baked and potentially disastrous solutions worked out in a spirit of desperation. It is worth considering whether the Ohio episode gives any insights into how the tax policymaking process might become more rational.

Causes of the Coma-Convulsion Syndrome

The roots of Ohio's 1971 bout with tax reform are complex and deep. Any attempt to simplify and generalize must do violence to the facts in some degree and omit many subtle influences. Nevertheless it seems possible to identify three

underlying and interrelated causes that allowed the state to reach a point where drastic action was called for. Each of the three in turn suggests some possible steps which, if taken in time, could perhaps have averted or eased the subsequent convulsion.

The first cause was fiscal. Ohio experienced 25 years of coma because of a fiscal situation that allowed citizens and political leaders alike to believe that all was well and nothing needed to be changed. The wartime surplus helped Ohio to get through more than a decade of postwar expansion without any serious fiscal problems. To be sure, the recession of 1958-61 brought on fiscal problems, but these were weathered by expenditure restraint coupled with modest increments in existing taxes. Throughout most of the sixties a superficially strong fiscal position was maintained by general economic expansion, continued tight-fisted budgeting and further incremental changes in existing taxes.

Qhio's decentralized revenue structure, in which a relatively large share of state-local tax revenue is raised locally, contributed to the false sense that all was well. Although steadily rising property taxes and municipal income taxes caused growing unrest, few people recognized these as the outcome of state tax policies. School boards, mayors, city councils and county commissioners were seen as the culprits, while the state legislature and administration were long able to view the problems as local rather than statewide in nature. Those who made state tax policy also were firm in their conviction that responsible government requires those who spend public money to bear the responsibility for raising the revenue.

That an emerging fiscal crisis could have evolved almost unnoticed in Ohio is perhaps surprising in view of the unusual degree to which Ohio makes tax policy by plebiscite. As has been noted Ohio has exceptionally restrictive property tax and debt limits, which necessitate frequent voter referenda on fiscal matters. One might think that this would create among the citizens a heightened awareness of tax problems, advance warning of coming crisis, and perhaps greater sophistication in evaluating alternatives. Such seems not to have been the case. The Ohio experience gives no clear support to the notion that extensive citizen participation through the referendum process contributed to the rational tax policymaking.

This observation suggests a second cause of the coma-convulsion syndrome in Ohio--the general lack of public awareness and understanding of tax matters. If Ohioans were probably no less well informed on such issues than the citizens of other states, they almost certainly were not better informed Despite the excellent information service provided on a statewide basis by the Ohio Public Expenditure Council and by such local organizations as Governmental Research Institute in Cleveland, few Ohioans knew how schools, welfare, parks or any other public service are financed, where the money comes from

or where their tax dollars go, or even the difference between local, state, and federal taxes. Still fewer had any conception of how to evaluate tax structures or tax policies except in crudest terms of direct personal impact. Almost no one recognized public services as having any positive value to them or as being in any way affected by tax decisions.

Even among interest groups that had a direct and continuing stake in tax policy the level of technical tax understanding, at least in Ohio, was so low that policy positions were sometimes taken that could be shown to be contrary to the very interests the organization purported to serve. Likewise few legislators had a grasp of any dimension of tax policymaking other than the legal and the political. Economic effects, administration, and taxpayer compliance problems were usually ignored. Consequently legislative attention tended to focus on narrow legalistic technicalities of tax laws and proposals for revision, rather than on broad policy issues.

The same lack of understanding of and interest in tax policy carried over into state administration in Ohio. For many years there was literally no one in Ohio whose job it was to look at the state-local tax structure in broadest terms and to make recommendations on tax policy. Though Ohio has over the years been lucky to have some of the nation's most distinguished and effective tax commissioners, the responsibilities of the position have usually been considered to center on execution rather than making of tax policy. Recent governors have had little interest in tax policy (except from a purely political standpoint) and little access to advice on the subject.

The third cause, which is really inseparable from the first two, is the existence throughout Ohio's long comatose phase of a political situation that led to fiscal problems being consistently swept under the rug. As noted earlier, the DiSalle defeat in 1962 was widely interpreted as a reaction to tax increases his administration has initiated. The no-new-taxes policy of his successor effectively ruled out any consideration of fundamental tax revision for an 8-year period. It also guaranteed that change, when it did come, would appear as a radical break with tradition.

Possible Remedies

If the causes of the coma-convulsion syndrome in Ohio are indeed those outlined above, certain kinds of remedies are implied. Some changes in the way states manage their public affairs might avert fiscal crises, improve public understanding and discourage irresponsible political maneuvering. To be realistic, however, one must probably recognize that in democratic political systems major policy changes seldom take place until an intolerable situation or a crisis develops. All that can really be hoped for is that the coma phase can be shortened and the crisis be made less convulsive.

The Ohio experience points up most clearly the need for continuing attention to tax policy on the part of top level policymakers in both legislative and administrative branches. It should be the objective of policymakers to define clearly their policy goals in such matters as the proportionate dependence on various tax sources, the balance between locally-raised and state-raised revenues, the desired degree of tax structure elasticity, the proper state share of local school costs and the state role in subsidizing other local subdivisions. Defining objectives implies thoughtful consideration to such issues as tax exporting; the effects of taxation on industrial location, urban growth patterns, and housing; the incidence of taxes by income group; the proper role of business taxes; the relation of state-local taxes to benefits received; and the nature and extent of geographic spillovers of expenditure benefits. The issues here are enormously complex. Nevertheless this does not excuse their being totally ignored, as was the case for years in Ohio.

Also needed is continuing attention to long-range trends in state-local revenues and expenditures, in order that policymakers can anticipate emerging fiscal problems and make plans for dealing with them before they reach crisis proportions. Ohio has recently begun to give consideration to the long-range results of tax policy decisions as well as of expenditure programs. Had high-level attention been given routinely to such matters a decade ago some problems might have been avoided.

It is relatively simple to say that objectives should be defined and long-range plans made. The difficulty lies in institutionalizing the process and assuring that it is carried out. One possibility would be the establishment of a permanent Economic Advisory Council that would concern itself with state-local fiscal problems, along with other economic issues. Another mode that is found in a few states involves a permanent Tax Structure Study Committee, responsible to the Governor or to the legislature for identifying and studying emerging fiscal problems and making well publicized recommendations. Numerous other arrangements can be visualized. Conceivably, a federal matching grant for long-range fiscal planning could serve as an effective inducement. While all such arrangements have their problems and can easily be subverted for political purposes or rendered ineffectual, experimentation along these lines in a few states gives cause for encouragement.

Improving the level of technical understanding of tax matters by legislators is still more difficult, but equally important. Most legislators bring little technical knowledge to the job, learning on the job what they believe is necessary, mostly with lobbyists as tutors. In recent years several states have instituted the practice of holding short orientation

courses for legislators, the aim being to impart a modicum of expertise on such issues as education, welfare, and taxation. Ohio experimented in 1969 with a legislative seminar of this sort, with only partly satisfactory results. Another planned for early 1971 was cancelled because of an untimely blizzard. One wonders how legislative action on the tax proposals might have differed had the seminar been held.

In the long run, however, it must be assumed that government will undertake activities that are politically risky only if public opinion forces them to do so, or if the political risk is reduced to an acceptable level. Thus the basic need is for increased fiscal awareness on the part of the public at large and greater sophistication in analyzing issues and alternatives. Among the matters on which improved public understanding seems most needed are the economic and social benefits of public expenditures, the functional responsibilities of various levels of government, the sources of governmental revenue, and some fundamentals of tax policy.

A major obstacle to gaining improved public understanding is the widespread opinion that tax policy is hopelessly dull, or complex, or both. It was for these reasons that the Ohio League of Women Voters even by 1971 had given little study to the topic despite its obvious timeliness and crucial importance. Another problem is the dearth of nontechnical materials although such contributions as Ecker-Racz's recent book The Politics and Economics of State and Local Finance should go far to meet this need. Educational seminars are potentially valuable. In Ohio such seminars have been sponsored throughout the state by such organizations as the AFL-CIO, the Agricultural Extension Service, and The Municipal League. The effectiveness of educational efforts of this sort could be enhanced if the process could somehow be activated before the issues reach the crisis stage. The universities no doubt can do a far more effective job of education on tax policy, both in the regular curriculum and in continuing education programs.

The press plays a dominant role in educating the public on fiscal matters. In Ohio, press (including radio and TV) coverage of the controversy over tax policy was very uneven. Some segments gave the matter much attention, others very little. Still greater was the variation in quality of coverage. Some individual reporters were sophisticated in their grasp of the issues and accurate in reporting them, while others consistently misunderstood, garbled and distorted. Editorial comment varied, predictably and appropriately, from strongly pro-income tax to strongly against. Less appropriately, much on both sides was evidently based on misinformation and misunderstanding.

A better educated and informed press could help enormously to improve public understanding of fiscal matters, but to accomplish this is no easy matter. Perhaps schools of journalism might require or at least encourage their students to take courses in public finance, and possibly in other technical areas where public policy issues frequently arise. Another possibility might be to offer short courses under university sponsorship at which editors and members of the working press could be exposed to a systematic unbiased summary of basic public finance facts and principles.

Finally, there are certain changes in tax structures themselves that could help greatly alleviate the coma-convulsion syndrome. Revisions to bring about greater elasticity deserve high priority. Though an elastic tax structure is certainly no guarantee of immunity to state fiscal crises, it is obvious that the malaise is worse when tax revenues tend constantly to lag behind economic growth and inflation. To this end, adoption of graduated personal income taxes in states that do not have them, or making more effective use of them in states that do, would make for healthier state-local fiscal systems. The federal government can aid in this process. Credits against federal income tax for state income taxes paid, and increased federal assistance in administering such taxes, might serve as effective inducements to needed state tax changes.

Another way the federal government can help states that are considering new or increased state income taxes is through structural improvement in the federal income tax. Because states are for practical purposes tied closely to the concepts and rules of the Internal Revenue Code, any loopholes or inequities in the federal income tax tend automatically to be incorporated into the state tax. The spotlight that was turned on federal tax avoidance in connection with debate on the Tax Reform Act of 1969 left many Ohioans convinced that the income tax, far from being an equitable tax, is so riddled with loopholes as to be the very antithesis of tax "reform". Opponents of the Ohio income tax proposal were able to argue with telling effect that only the middle income wage earner would end up paying the tax while the wealthy, with access to expert tax advice, would escape untouched.

Relaxation of existing tax limitations and referendum requirements would do much to facilitate state-local financing, especially in states like Ohio that employ highly restrictive provisions. These constraints are of course entirely self-imposed and can only be eased or removed by the people themselves. At the present time it seems inconceivable that the people of Ohio might ever vote to ease the constitutional restriction on tax levies or on borrowing. But times and attitudes change. States that do

not labor under such fiscal constraints should profit from Ohio's example and shun them. In the meanwhile states like Ohio might explore statutory routes toward easing such fiscal constraints, and new ones should certainly be avoided.

Lastly, it would seem that fiscal crises at the state-local level could perhaps be avoided if policymakers at all levels of government were to give continuous attention to the proper sharing of responsibility for financing governmental functions. In Ohio, the growing reluctance of local property taxpayers to vote school tax levies can be interpreted as a reflection of the increasingly statewide (or indeed nationwide) nature of the benefits from a function that not too many years ago was seen as primarily local and is still largely locally financed. It is at least possible that the recurring fiscal problems of the states are symptomatic of a similar problem in which states continue to be held primarily responsible for financing functions (e.g., welfare) which have become largely national in the scope of their benefits. If the federal government and the states were to avoid saddling smaller units of government with the burden of financing services characterized by large spillovers, some recurrent state-local fiscal problems might be eased.

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